



Economic Analysis of Casino Applicants for Missouri's Gaming License

Prepared for the Missouri Gaming Commission
November 2010



EXECUTIVE SUMMARY

Three applicants for Missouri's thirteenth casino license are analyzed in this economic report prepared for the Missouri Gaming Commission (MGC). The MGC contracted with the Missouri Economic Research and Information Center (MERIC), within the state's Department of Economic Development, to research the potential economic impacts each applicant would have to Missouri and the gaming industry. A primary concern was to place the applicant's positive impacts in context with the sales that existing casinos may lose as a result of new market competition (sales cannibalization).

MERIC reviewed existing research and market studies, received input from both current casinos and applicants, and applied spatial analysis and economic models to assess the overall economic impact of each applicant to Missouri. Three scenarios, a worst, average, and best case, were used to determine how outcomes would differ given a range of cannibalization effects.

Findings

In all three scenarios, *Isle of Capri–Cape Girardeau* generated the highest net new casino revenue and gaming taxes, new employment, and, overall Gross Domestic Product. *Casino Celebration–St. Louis* was consistently second in all three scenarios while *Paragon Gaming–Sugar Creek* was third.

The primary reason for this outcome is that *Isle of Capri*, while smallest of the three in project size, takes the least amount of revenue from existing casinos. All of the applicants have submitted proposals for medium-sized facilities but only *Isle of Capri* is far enough from existing Missouri casinos to minimize cannibalization.

Although *Casino Celebration's* overall investment and employment are somewhat larger than *Paragon* and *Isle of Capri*, its size, given the proposed location, is not substantial enough to overcome the negative cannibalization effects it would have on existing Missouri casinos. It would, however,

have less displacement than *Paragon* as Illinois casinos bear a good share of the sales impact.

Paragon was third in all scenarios due to the large amount of cannibalization it would have on existing Missouri casinos clustered in Kansas City. Current gaming facilities and the *Paragon* location are all within five miles of competitors. *Paragon* would also begin operations one year after the opening of a large casino in Kansas. The *Hollywood Casino* at the Kansas Speedway will open in 2012 and compete strongly for gaming revenue throughout the Kansas City Metro.

Applicant Figures*		Casino Celebration St. Louis City	Isle of Capri Cape Girardeau	Paragon Gaming Sugar Creek
	Investment	\$132M	\$125M	\$107M
	Gaming Positions	1,636	1,168	1,480
	Casino AGR	\$126.1M	\$80.9M	\$103.4M
	Casino Jobs	565	516	573
Research Findings**	Net New Casino AGR	\$56.8M	\$76.2M	\$21.7M
	New Gaming & Admin. Taxes	\$15.7M	\$20.7M	\$5.8M
	Total New Jobs	476	726	280
	New State GDP	\$45.2M	\$55.0M	\$20.2M
* Information reported by applicants. All dollar figures in millions. AGR is annual average over five years.				
** Findings for average scenario includes net new figures reflecting cannibalization of existing casinos. Net new AGR, gaming taxes, employment, and GDP are annual averages for seven years (two construction and five operation years). Total employment includes direct and indirect jobs calculated in the economic model.				

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INTRODUCTION

The state of Missouri is, by law, limited to 13 riverboat casinos. These casinos are regulated by the Missouri Gaming Commission (MGC) which provides oversight and must approve new casinos when an existing operator closes down.

In the summer of 2010, the *President Casino* in downtown St. Louis ceased operations, freeing up a casino license in Missouri. The MGC understood the critical decision it would face in awarding the available license to only one of the many quality proposals the commission would receive during this process. Knowing the importance of the task ahead, the MGC took early steps to analyze the situation and engaged the Missouri Economic Research and Information Center (MERIC), the research arm of the state's Department of Economic Development, to assist the commission with the economic implications.

While the MGC has to explore many issues in the awarding of a license, such as the applicant's financial strength, the economic impact to Missouri is certainly of vital interest to the commission. Apart from the taxes directly generated by the casino that go to services such as education, the operation of the facility will directly employ hundreds of workers that, together with the casino, purchase many more things throughout the economy. The MGC also understands how important this decision is to the applicant communities and existing casinos that will be impacted in various ways by the location of the new gaming facility.

This report examines the current casino operators and markets, the license applicants, and the economic impacts associated with a variety of scenarios to provide the commission with a broad understanding of the economic issues. The analysis serves as one measure for MGC consideration as it makes the important decision to award the state's one remaining casino license.







EXISTING CASINOS AND MARKETS

Missouri Casino Gaming Industry

Twelve sanctioned riverboat casino facilities currently operate in Missouri. Four are located in the St. Louis metro region, four in the Kansas City metro region, and four are in out-state locations along the Missouri and Mississippi rivers. In fiscal year 2010 adjusted gross receipts (AGR) totaled \$1.75 billion for all casinos.

Overall, the nearly 54 million annual visits to the state's casinos generated almost \$342 million in wages and directly employed 11,071 workers in the industry. Missouri casinos generated over \$367 million in state and local gaming tax revenue and nearly \$108 million in admission fees.

Missouri casinos currently pay a state and local gaming tax of 21 percent and an admission tax of \$2.00 per person, per 2 hour visit. The state of Missouri receives gaming taxes equal to 19 percent of the casino's AGR. Cities where the casinos are located receive the remaining 2 percent of AGR gaming tax. State and local city governments each receive \$1.00 dollar in admissions tax for every casino visit.

Missouri and the U.S. Market

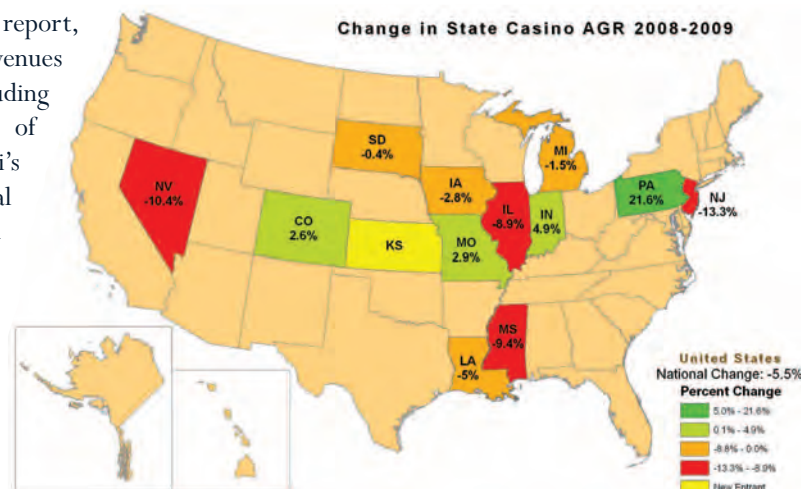
National gaming data is collected from two separate sources, the American Gaming Association and the National Indian Gaming Commission. The American Gaming Association (AGA) collects data only on state government regulated casinos in the United States. In 2009, the AGA reported total U.S. gross receipts of over \$30.74 billion. The U.S. casino industry employed 328,377 workers at total wages over \$13.1 billion. State and local tax revenue collected from gaming operations in the U.S. was over \$5.59 billion.

The National Indian Gaming Commission (NIGC) reports data on Indian casinos located throughout North America. Over 230 tribes operate 425 casino facilities in 28 states. In 2009, Indian Casinos generated over \$26.5 billion in revenues and employed 712,000 workers.

Missouri is one of thirteen states with state-regulated casino gambling. Missouri borders Illinois, Iowa, and Kansas which also allow state-regulated casinos. In addition, Missouri casinos also compete with Indian casinos in Oklahoma, Kansas, Nebraska, and Iowa.

According to a 2009 AGA report, Missouri ranks 7th in gaming revenues and 6th in taxes generated. Excluding the destination gambling states of Nevada and New Jersey, Missouri's market share is 11 percent of total state-regulated revenue generated and employs 10 percent of the total employment.

The report for calendar year 2009 shows a 5.5 percent decline in U.S. AGR compared to the previous year. Missouri was one of five states to actually increase revenues over this time period. The Missouri metro regions of St. Louis and Kansas City ranked high on the 2009 AGA report of casino markets, at 6th and 11th respectively. These metros were also two of only five metros to have gained in gross receipts from 2008-2009.



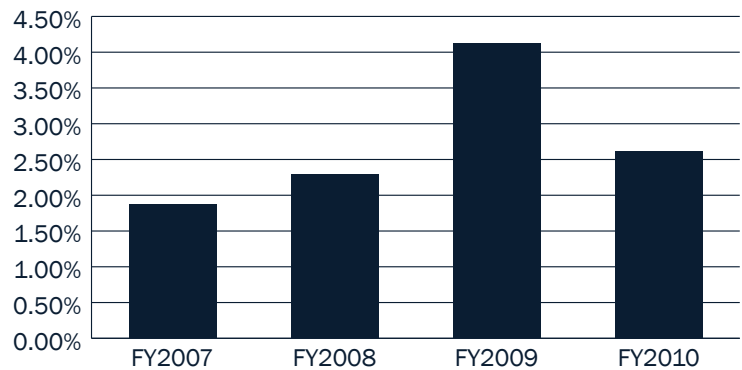


Missouri Trends and Legislative Factors

In recent years, Missouri has experienced average AGR growth of 2.7 percent in the casino industry. Many factors have contributed to this upward trend including new casinos and legislative changes in Illinois and Missouri.

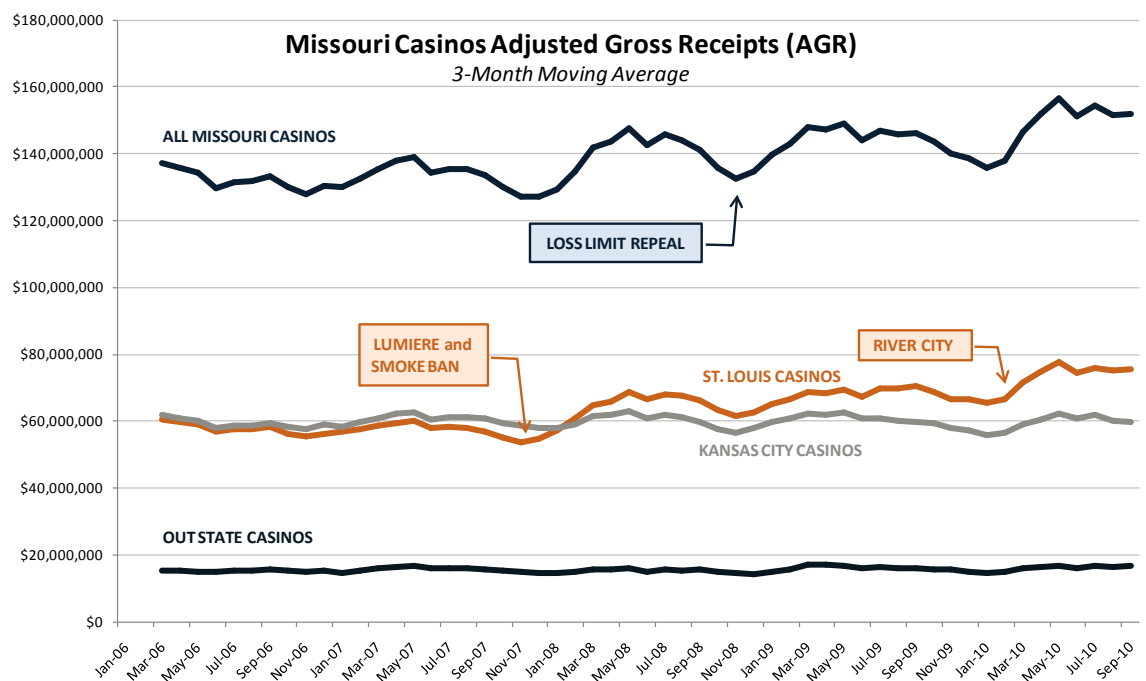
Two casinos opened in Missouri over the past five years, both in the St. Louis region. The *Lumiere Place* casino opened at the end of 2007 and the *River City Casino* began operations in March of 2010. The *President Casino*, a smaller St. Louis area casino, ceased operations at the end of fiscal year 2010 freeing up Missouri's 13th license. The *President Casino's* market base was small, \$19 million annual AGR in 2010, and was absorbed by the other casinos in the region.

Annual Change in Missouri AGR



In 2008 Illinois instituted a smoking ban for all casinos in the state. The unintended consequence from the law resulted in an increase in revenues particularly for Missouri, Iowa, and Indiana casinos from Illinois residents traveling across the border to neighboring states where smoking is allowed. The St. Louis Federal Reserve estimated a \$61 million loss to Illinois gaming revenue in the St. Louis metro region resulting in a 9 percent revenue gain to the Missouri side of the metro (Garrett, 2010).

In addition to the Illinois legislation, Missouri voters repealed the two-hour \$500 loss limit in November 2008. This helped sustain the gains made by the smoking ban starting in 2008 and helped generate statewide gains in fiscal year 2009 of over 4 percent.





Kansas City Region

Missouri currently has four casinos located in the Kansas City metro area. The casinos were all built in the mid 1990's. In total they represent over 310,600 square feet of gaming space and generate over \$710 million in gross receipts annually or roughly 40 percent of the total Missouri AGR.

Casino Summaries

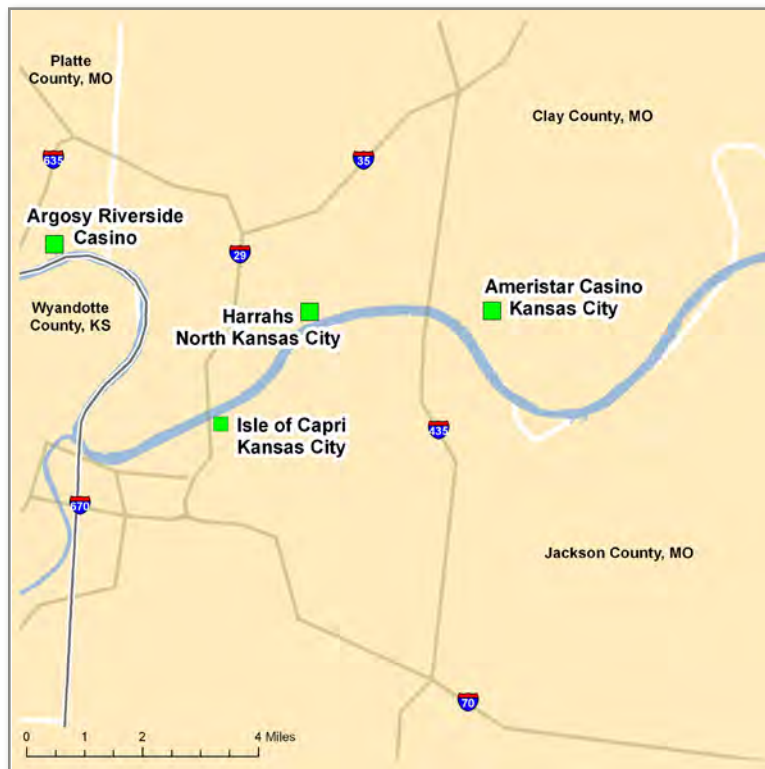
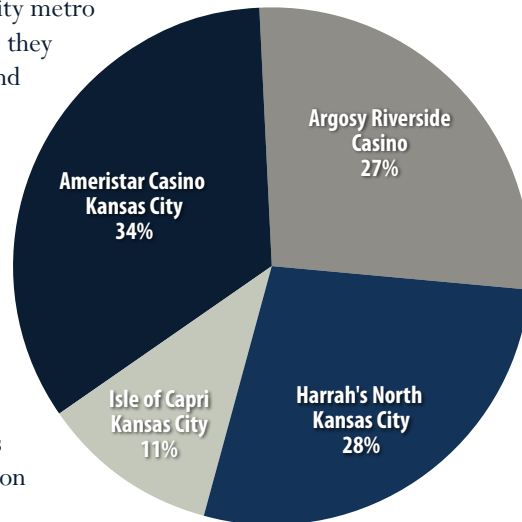
Ameristar Casino Kansas City

Ameristar is located just east of I-435 North on the Missouri River. *Ameristar* is currently the furthest east from downtown Kansas City and by far the largest casino in the Kansas City metro area. With a gaming space of 140,000 square feet, more than twice the size of any Kansas City competitor, *Ameristar* generates nearly \$239 million annually in revenues and employs a staff of 1,295.

Argosy Riverside Casino

Located the furthest north of downtown Kansas City on the Missouri River near I-635, *Argosy Riverside* is the third largest casino with 62,000 square feet and generates nearly \$194 million annually in AGR employing a staff of 982.

Market Share



Kansas City Area Casinos

Harrah's North Kansas City

Located on the Missouri river between I-435 and I-29, *Harrah's* is situated between the largest casino *Ameristar* and the smallest casino *Isle of Capri-KC*. *Harrah's* is the second largest casino in the metro at 63,300 square feet and generates \$196 million in AGR employing 1,180 casino staff.

Isle of Capri- Kansas City

Located on the Missouri river near I-29, *Isle of Capri* is the nearest casino to downtown Kansas City but also has the smallest square footage of the four casinos at 45,300 square feet. *Isle of Capri* generates around \$82 million in AGR and employs 433 staff members.



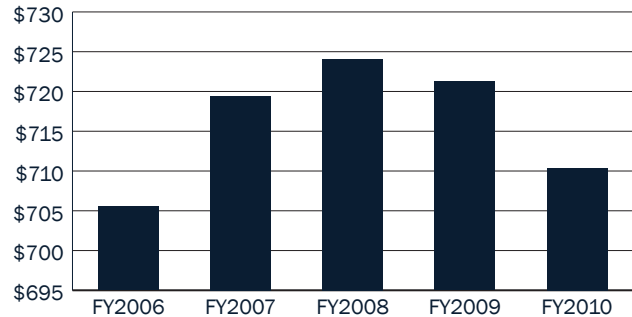
Kansas City Trends

Kansas City region casino AGR has remained relatively flat over the last five years, gaining just an average of 0.18 percent per year. Until recently, Kansas City had been the leader in gross receipts over St. Louis. The St. Louis metro overtook Kansas City in 2008 because of market growth due to the Illinois smoking ban and the new *Lumiere Place* casino.

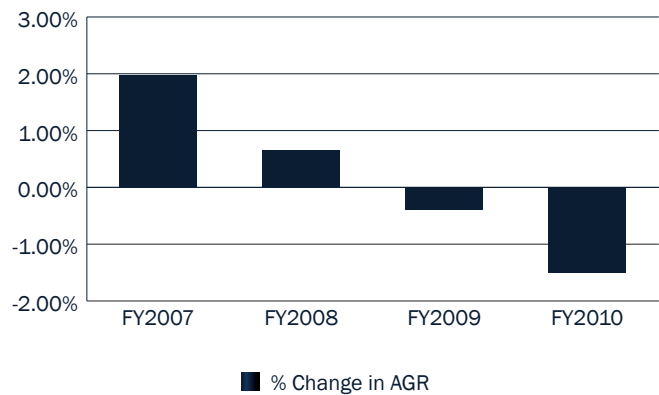
The year-to-year percentage changes in AGR within Kansas City have been steadily declining over the past five years with the last two fiscal years showing negative growth due to the recession. So far in fiscal year 2011 through September, revenue is declining over the prior year at 0.28 percent.

Kansas City casinos have also seen a decline of 9.5 percent in admissions over the last five years, from 11.6 million in FY2006 down to 10.5 million in FY2010. The casinos have been successful in mitigating losses in AGR associated with lower levels of patrons by increasing the level of house gains per patron. Since 2006, average AGR per patron has increased 2.6 percent per casino.

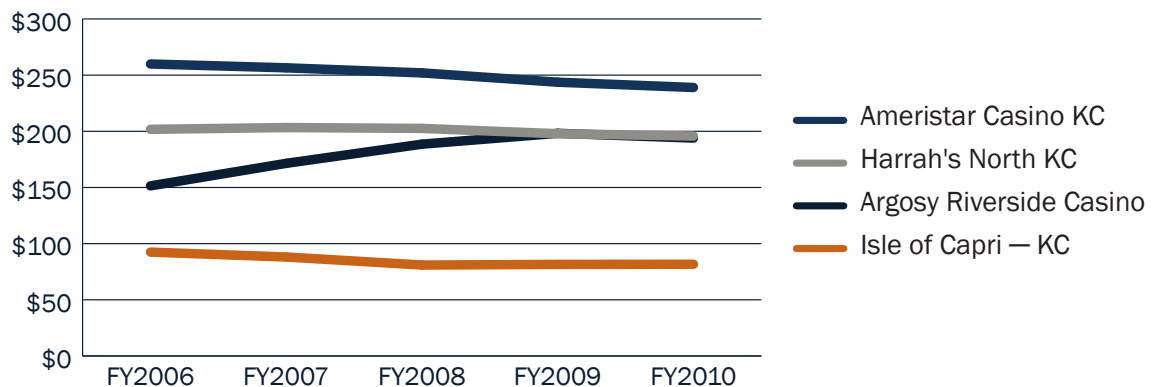
Kansas City Casino Revenue



Kansas City Year to Year Revenue Trend



Kansas City Casino Revenue Trend





While the regional growth has remained somewhat stagnant, the competition for market share in Kansas City has been very active over the past five years. Since 2006, *Argosy Riverside* has steadily taken market share away from the other three casinos moving from 21 percent of the market to 27 percent. *Harrah's* has been the least affected, only dropping by one percentage point. *Ameristar*, with the highest market share of 34 percent, was affected the most by *Argosy Riverside's* gains even though the two casinos are the furthest apart.

Kansas Market Competition

Kansas currently has six Indian casinos located in the Kansas City/St. Joseph vicinity. The *7th Street Casino* is a small 400 slot, 20,000 square foot casino located in Kansas City, Kansas and is the closest competition to the Missouri casinos.

Kansas recently passed the 2007 Kansas Expanded Gambling Law which authorized construction of four new state-owned resort casinos. Two projects in Sumner and Cherokee counties are currently on hold. Two other projects are to be completed and operational in 2011; *Boothill Casino and Resort* in Dodge City and *Hollywood Casino* at the Kansas Speedway in Kansas City, Kansas.

The *Hollywood Casino* is a \$368 million dollar facility that will house over 2,800 gaming positions in over 100,000 square feet of gaming space. By comparison, this casino would be slightly larger than St. Louis' recent addition *River City*. A new casino of this size will have a substantial impact on casino revenues in the Kansas City metro area. The estimation of this effect will be detailed at great length within the Analysis Methodology section of this report.





St. Louis Region

Missouri currently has four casinos located in the St. Louis metro area. Two casinos were built in the mid 1990's and two casinos have been recently built and opened for operation in 2007 and 2010. In total the casinos represent over 415,000 square feet of gaming space and generate nearly \$850 million in adjusted gross receipts (AGR) annually or roughly 49 percent of the total Missouri AGR.

Casino Summaries

Ameristar Casino St. Charles

Located off of I-70 on the Missouri river, *Ameristar Casino* is the furthest west from downtown St. Louis and has the largest gaming space at 130,000 square feet and gaming positions at 3,555. The casino is the largest in Missouri and generates nearly \$289 million in AGR while employing a staff of 1,685.

Harrah's Maryland Heights

Harrah's is located off of I-70 on the Missouri river, just south of *Ameristar* in St. Charles. The casino is the second largest in the state, slightly smaller in square footage (120,000) and gaming positions (3,379) than nearby *Ameristar*. *Harrah's* currently generates \$288 million in AGR and employs a staff of 1,476.

Lumiere Place

Located off of I-70 on the Mississippi river, *Lumiere Place* is in downtown St. Louis and across the river from the Illinois *Casino Queen*. The casino opened in 2007 and now generates over \$195 million in AGR supporting a staff of 1,299.

River City

The newest Missouri casino, *River City*, is located off of I-55 and south of downtown St. Louis on the Mississippi river. *River City* opened in March 2010 and is on track to generate over \$174 million annually with a staff of 1,167.



St. Louis Area Casinos





Illinois Market Competition

Alton Belle

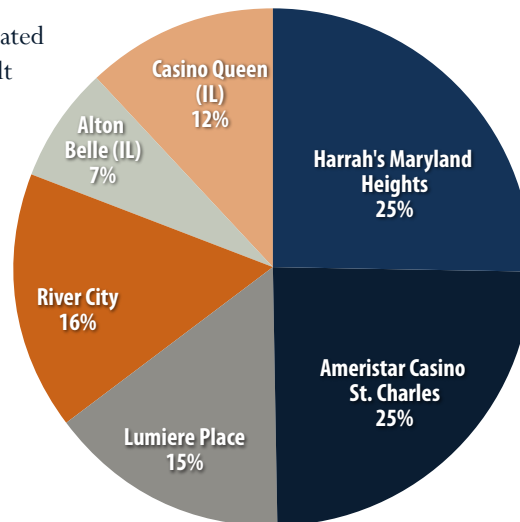
The *Alton Belle* is the northern-most St. Louis casino located off of Highway 67 on the Mississippi river in Illinois. Built in 1991, *Alton Belle* is the oldest casino in the market. With a square footage of just 23,000, this casino is still able to generate over \$80 million in AGR annually and employs 540 staff members.

Casino Queen

Located across the river from *Lumiere Place* in East St. Louis, *Casino Queen* is the second oldest casino in the market and recently underwent a renovation. This casino has 40,000 square feet of gaming space and generates nearly \$140 million in AGR employing 783 casino workers.

Illinois casinos currently have a 19 percent share of the St. Louis metro casino market. The onset of the Illinois smoking ban and the addition of two new Missouri casinos in the last three years has dramatically decreased Illinois' AGR share from 30 percent in 2006.

Market Share

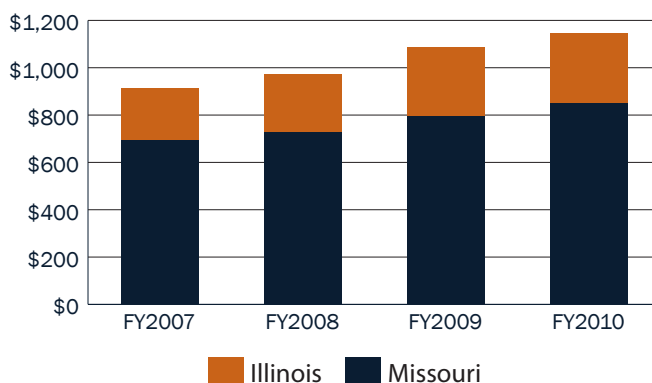


St. Louis Trends

The total St. Louis area market AGR has increased at a rate of 2.6 percent per year over the last three years. However, this growth has been lopsided as all increases have been on the Missouri side which averaged 7.0 percent a year. Illinois casinos have experienced a loss of AGR at the rate of 9.4 percent per year over the same time period.

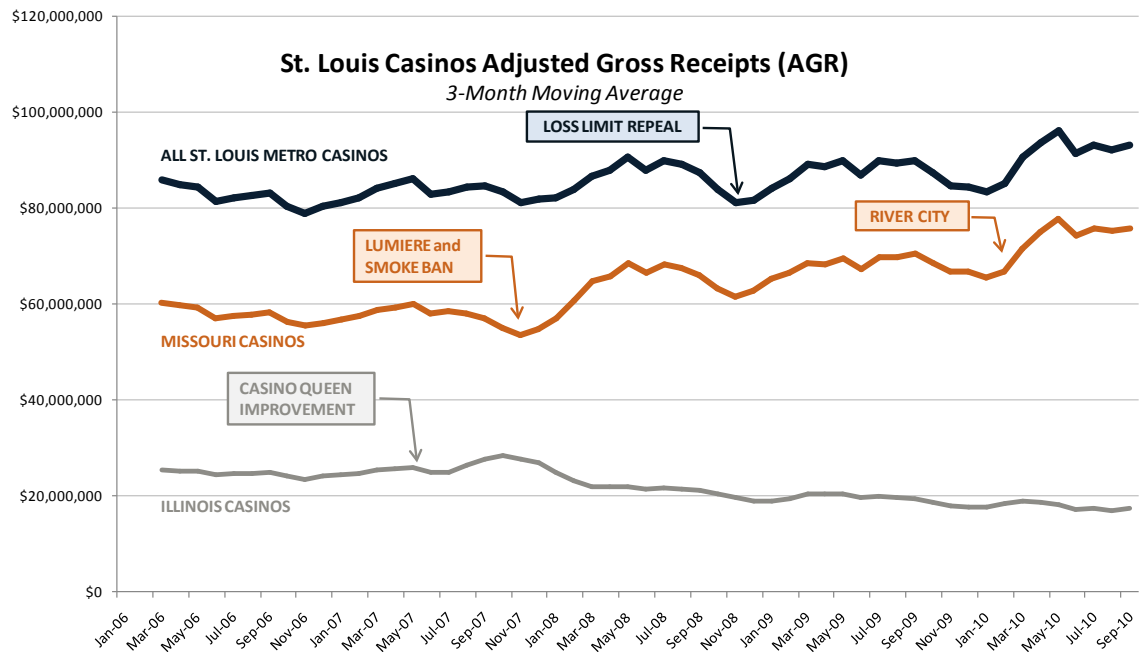
In 2008 St. Louis overtook Kansas City as the number one casino revenue producer in the state. In terms of admissions over the past three years, Missouri casinos have increased by an annual rate of 11.5 percent while Illinois admissions declined by 1.8 percent per year.

St. Louis Metro Revenues





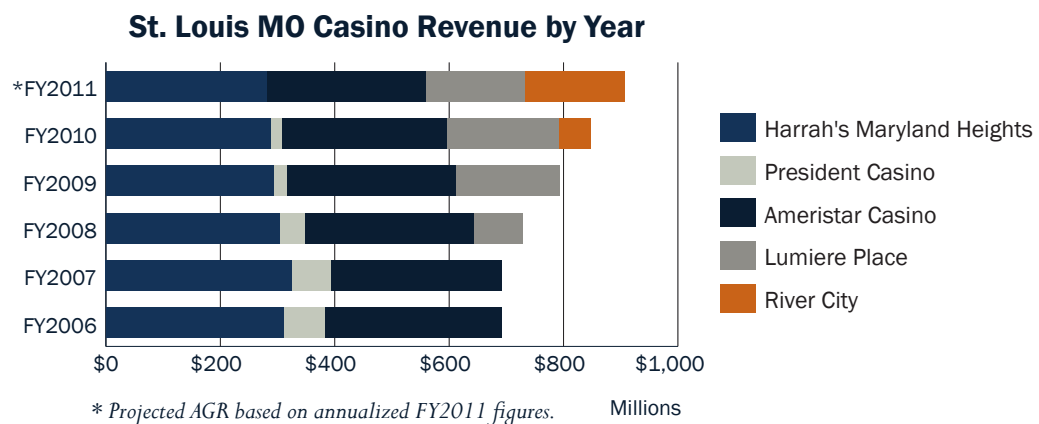
As discussed previously, many factors have contributed to Missouri gains in the St. Louis metro. In 2008 the region saw the opening of *Lumiere Place*, the smoking ban in Illinois, and the repeal of the \$500 loss limit in Missouri. The combined effect of these factors was a total market AGR increase of 3.1 percent over the year and an additional 1.9 percent in 2009.



St. Louis Missouri Casino Trends

Over the past few years there have been significant changes to the St. Louis market. As shown in the chart below, *Lumiere Place* entered the market and created some displacement for all three existing casinos, with the *President Casino* declining the most over two years at 66 percent between fiscal years 2007-2009. However, the Missouri side of the market expanded by nearly 15 percent over this same time period, with an estimated 9 percent of that growth due to the Illinois smoking ban.

In fiscal year 2011 *River City* is expected to have the largest percentage cannibalization impact on *Lumiere Place* while still growing the market, assuming similar activity from March to September 2010.



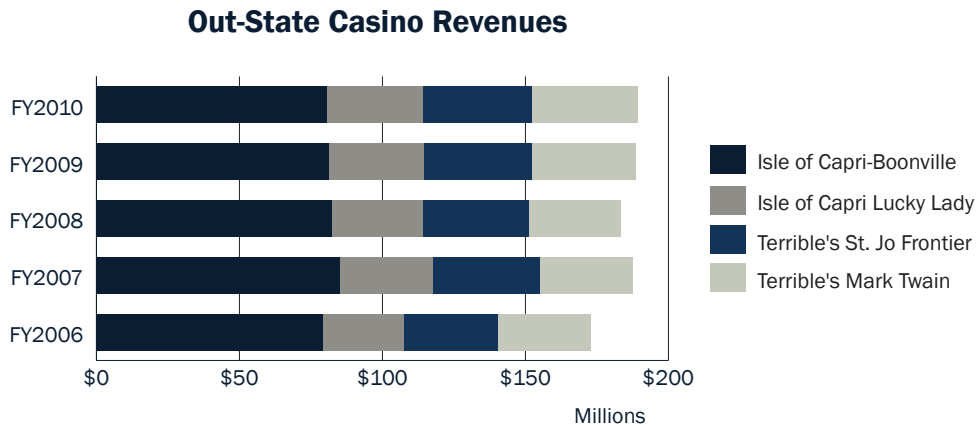


Out-State Missouri

Missouri currently has four state licensed casinos located outside of the major metros of St. Louis and Kansas City. State licensed casinos include Boonville, Caruthersville, La Grange, and St. Joseph. Out-state casinos account for almost 11 percent of total casino revenues in the state, or more than \$189 million annually.

The overall licensed out-state market has grown at a rate of nearly 2.4 percent per year since fiscal year 2006. Most of the growth occurred in FY2007 with *Terrible's—St. Joseph* gaining 14.1 percent, *Isle of Capri Lady Luck in Caruthersville* gaining 13.6 percent, and *Isle of Capri—Boonville* with a 7.8 percent gain.

Fiscal year 2008 exhibited across the board recessionary declines, however modest gains have occurred over the last two years in all casinos except Boonville. *Terrible's Mark Twain Casino* had the largest percentage increase in the last two years with a gain of 13.6 percent in 2009.





LICENSE APPLICANTS

On September 1, 2010, applicants for Missouri's thirteenth casino license submitted formal applications to the Missouri Gaming Commission (MGC). By late October three of the casino applicants were determined by the MGC to be viable candidates for further economic analysis.

The following applicant summaries include project activities as described in the first phase of development and operations. This phase spans seven years to include two years of initial investment and five years of operations. Later proposed phases of development were deemed too speculative by the MGC to impact the current decision-making process.

Casino Celebration-St. Louis City

Casino Celebration is proposing a facility in north St. Louis City on Riverview Drive. The first full year of operations would begin in 2013 after completion of \$131.5 million in construction and investments. Gaming space proposed is 40,000 square feet with 1,400 slots, 36 tables, and a poker room.

The total gaming positions of 1,636 would make *Casino Celebration* a mid-sized facility in Missouri, somewhat bigger than the *Isle of Capri-Kansas City* (1,404 positions) but considerably smaller than the next largest casino, *Harrah's* in Kansas City (2,130 positions).

Amenities would include a steakhouse, buffet, food court, sports bar, a bar/cabaret, kiosks, and a gift shop. Total AGR is estimated to increase from \$121.2 million in 2013 to \$131.2 million by 2017. The applicant estimated a total operational employment of 565 to include 450 gaming and 115 non-gaming positions. Total payroll is expected to range from \$22.6 million in 2013 to \$24.5 million in 2017.



Casino Celebration in St. Louis





Isle of Capri – Cape Girardeau



Isle of Capri Location in Cape Girardeau

The *Isle of Capri* submitted a proposal to locate in Cape Girardeau with the first full year of operation in 2013. Development cost is estimated at \$125 million. The proposed gaming space is 38,550 square feet with 1,000 slots, 28 tables, and a poker room. With total gaming positions of 1,168, the mid-sized casino would be slightly larger than the *Isle of Capri–Boonville*

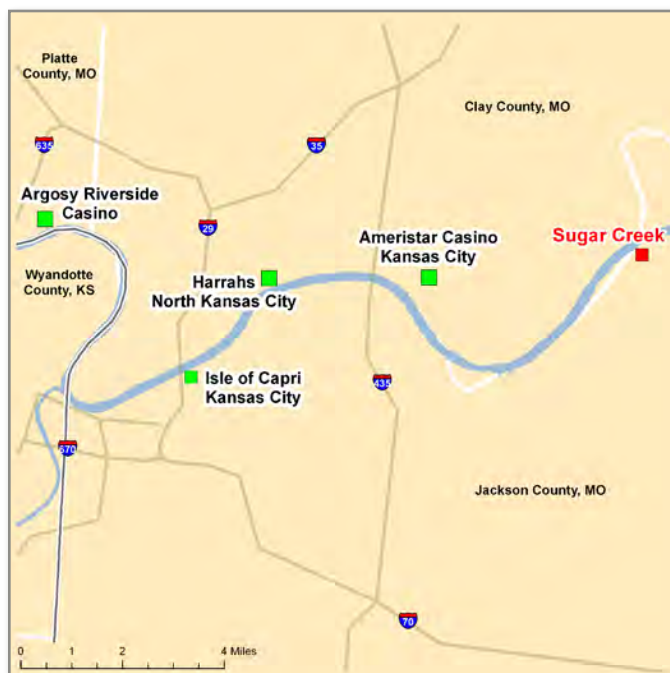
Amenities would include five bars/restaurants and a conference/events center. Total AGR is estimated to increase from \$71.4 million in 2013 to \$86.7 million by 2017.

Total casino operational employment of 516 employees includes 332 gaming and administrative positions along with an average of 184 restaurant/retail employment jobs. Total payroll for the facility was estimated by the applicant to range from \$14.5 million in the first year to \$17.7 million in 2017.

Paragon-Sugar Creek

Paragon Gaming Missouri is proposing to locate east of Kansas City in the town of Sugar Creek, with the first full year of operations beginning in 2013. Total development cost is estimated at \$107 million. The facility would include a gaming space of 55,200 square feet with 1,200 slots, 40 tables, and a poker room. Total gaming positions of 1,480 would make this a mid-sized casino comparable in size to the *Isle of Capri–Kansas City* (1,404 positions).

Amenities include a buffet, café, two bars, 125 seat cabaret lounge, and retail space. Total AGR is estimated to increase from \$97.4 million in 2013 to \$108.8 million by 2017. The casino facility plans to employ 573 staff members to include 435 in gaming and 138 in non-gaming positions. Total payroll is expected to start at \$20.2 million in the first year of operation.



Paragon Gaming Location in Sugar Creek



ANALYSIS METHODOLOGY

The awarding of the last casino license in Missouri is not only important to the winning applicant and the people it will employ but also important to the surrounding community and the state economy. However, the MGC recognizes that the location of the newest casino can also have negative impacts to gaming companies that already generate jobs and revenue for the state.

Well ahead of the deadline for license applications the MGC decided that a comprehensive economic analysis was prudent to not only understand the bottom line numbers from gaming, such as new education tax dollars generated, but the broader impacts to Missouri. Large casino operations hire many workers, buy supplies and services, and ultimately add to the output of the state as spending multiplies throughout the economy.

All of these positive economic impacts, however, do not consider the effects of competition that the new casino will bring into a market. As most gamers are local residents with limited disposable income, any new casino will take sales away from existing operators. This cannibalization, or revenue displacement, lessens the overall economic impact as established casinos lose sales and reduce jobs.

This section discusses the considerations and methods used to understand existing Missouri markets, the effects of competition, and the analysis of economic impacts from a new casino.

Preliminary Analysis

Preliminary research began with a literature review of casino industry and economic impact studies from the MGC, industry associations, market analysts and others (see bibliography). This review coincided with research into current and historical trends of casinos in Missouri with MGC data and through discussions with MGC staff.

The initial review identified significant informational needs to include:

- ▶ The development of questionnaires to understand economic issues.
- ▶ The analysis of the Lumiere Place competitive impacts.
- ▶ The projection of existing casino AGR.
- ▶ The development of a gravity model to estimate cannibalization effects.

Development of Questionnaires to Understand Economic Issues

Questionnaires were developed to give existing casinos and license applicants a uniform method to identify economic information and concerns early on in the process. The questionnaires (both in the report appendix) asked interested parties to identify market conditions, projected AGR, and competitive issues with individual results remaining confidential.

A significant element of these questionnaires was the aggregated patron location data the existing casinos provided for mapping purposes. No individual gamer information was shared, only total numbers grouped by zip code. This information helped researchers develop more realistic spatial models for determining adverse impacts to existing casinos from a new market entrant.

The questionnaires proved very helpful in understanding the different perspectives of existing casinos and new license applicants. The response to the questionnaire was proprietary information and thus considered a closed record.





Analysis of the Lumiere Place Competitive Impacts

From analysis of Missouri gaming markets, it was clear that the opening of the *Lumiere Place* casino offered the best chance to understand recent competitive effects in Missouri markets. The *River City Casino*, which opened in March 2010, was too new to analyze for any long-term impacts.

Total AGR for all Missouri casinos had stayed relatively level in the two years prior to *Lumiere Place* opening, with a slight decline of 0.15 percent from November 2005 to November 2007. This static state, however, was jolted upward by events that began to unfold in late 2007.

In December 2007 the *Lumiere Place* casino opened in downtown St. Louis. A month later a smoking ban was enacted in Illinois casinos causing many Illinois gamers to cross over to casinos on the Missouri side. While these two events were good for Missouri gaming revenue, the nearly simultaneous occurrence created problems for understanding how much influence each incident had. Furthermore, the smoking ban has now been in place for several years which has undoubtedly continued to give Missouri casinos a boost at the expense of Illinois.

The St. Louis Federal Reserve Bank recently analyzed the smoking-ban issue (Garrett, 2010) but admitted that an exact estimate in the St. Louis market was difficult due to *Lumiere Place's* opening. However, the report's analysis does show that Illinois casinos, as a whole, declined by more than 20 percent in revenue following the ban. That analysis holds true in the St. Louis market as well.

During 2008, the older St. Louis Missouri casinos (*Harrah's*, *Ameristar*, and *President*) lost a total AGR of \$61.6 million as compared to the year before while *Lumiere Place* brought in \$162.6 million. This means that only \$101 million of *Lumiere Place's* AGR was new to Missouri (\$162.6–\$61.6 million). A simple net new rate to the state, without considering the smoking ban which gained Missouri casinos, would be 62 percent, or \$101/\$162.6 million.

However, St. Louis Illinois casinos (*Casino Queen* and *Alton Belle*) also declined by \$63.4 million, or 20 percent. If all Illinois losses were attributed to the smoking ban and had gone to *Lumiere Place*, then the casino's new total market AGR would have been \$37.6 million (\$162.6–\$61.6–\$63.4 million). In this scenario, *Lumiere Place's* net new total market AGR would be 23 percent, or \$37.6/\$162.6 million.

Both of these 2008 net new AGR estimates for *Lumiere Place*, 23 to 62 percent, represent unrealistic lower and upper limits since the effects of the casino and the smoking ban cannot be separated to gauge what was truly new to Missouri. But these boundaries do point to a reasonable middle ground of net new *Lumiere Place* AGR to Missouri (average would be 43 percent) which is useful in future scenario development.

The research into *Lumiere Place's* overall impact to St. Louis was an important gauge of how the larger metro markets in Missouri might respond to a new market entrant in 2013. While certainly other factors such as the recession and recovery will influence casino growth rates in the years ahead, this example would serve to inform researchers of possible growth scenarios.

Projection of Existing Casino AGR

The first full year of operation for a new casino is expected to be 2013 as it will take the better part of two years to complete the investment and construction phases. Setting a future baseline for the expected AGR of existing casinos was important to determine how much impact a new casino would have.

One of the first considerations of AGR growth is the change in population. The gaming population, adults 21 and older, grew at an annual statewide rate of 1.0 percent from 2000 to 2009. Projections out to 2014 show that the Kansas City metro is expected to closely match that population growth rate while St. Louis and Cape Girardeau will see lower rates (see *Population Growth Estimates Table on next page*).





Population Growth Estimates

2009-2014 Annual Population Growth Rates		
Area	Total MSA Population	Age 21+ Pop. within 60 Miles
St. Louis	0.4%	0.6%
Kansas City	1.0%	1.1%
Cape Girardeau	0.3%	0.3%

Source: Moody's Analytics, Inc. and ESRI.

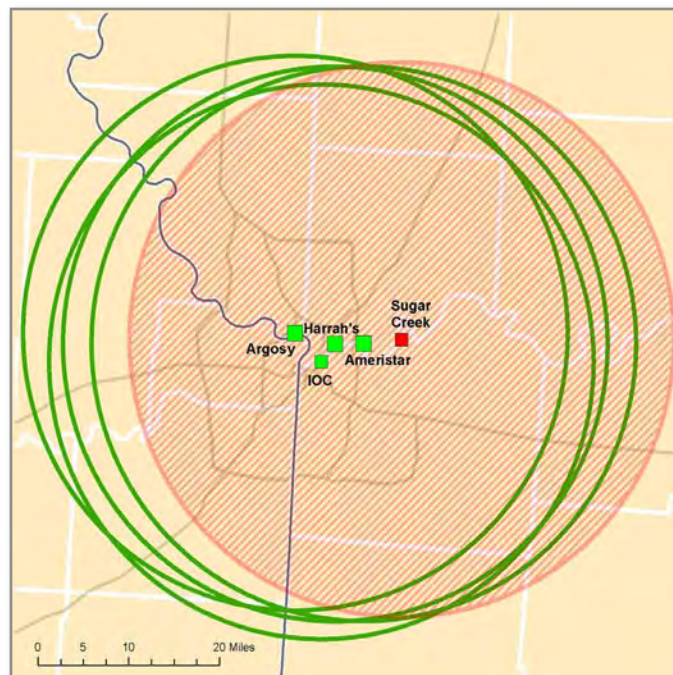
Most of the existing casinos provided 5-year AGR estimates (2011-2015) through the questionnaire. Although specific numbers cannot be displayed, the average annual AGR growth rate was 1.6 percent. St. Louis casinos reported the highest growth rate while rural casinos reported the lowest. Kansas City AGR growth rates were more modest than St. Louis casinos which may reflect the impact of the new Kansas casino due to open in 2012. Located at the Kansas Speedway, this large casino is expected to have a substantial impact on Kansas City Missouri AGR.

Development of a Gravity Model to Estimate Cannibalization Effects

One of the challenges of this project is developing a model to estimate the incremental AGR a new casino will bring to Missouri as it competes with existing facilities. This net new AGR, which considers sales cannibalization, would also impact how much economic activity is thought of as new during the operations phase of the thirteenth casino.

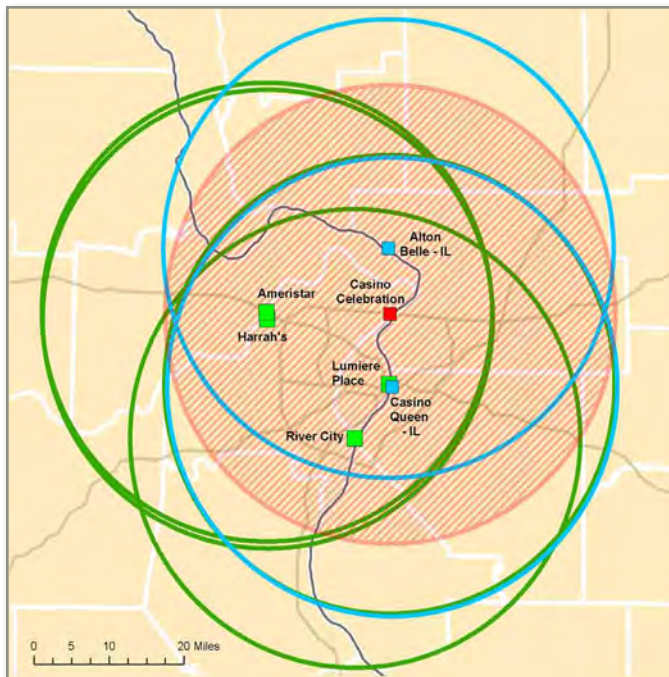
One of the easiest ways to understand cannibalization is to look at how existing casinos and the new applicants overlap within a particular radius. Because a majority of Missouri's gaming revenue is from local patrons, radius maps illustrate how overlapping market areas cannibalize sales.

In the Kansas City region the 30-mile casino radius maps nearly overlap with all facilities within five or less miles of the nearest competitor. This close proximity means that any new casino located near existing competitors in Kansas City will cannibalize AGR to a high degree.



Kansas City Area 30-Mile Casino Radius Map





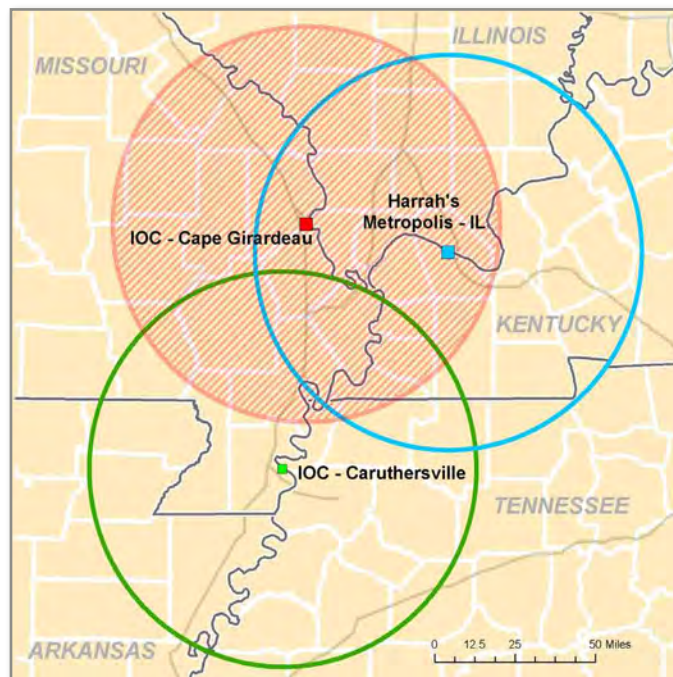
St. Louis Area 30-Mile Casino Radius Map

In the St. Louis area, the casinos are more spread out than in Kansas City but still have a large amount of overlap. The proposed *Casino Celebration* would have an overlapping 30 mile radius with all other casinos. The new casino's location would be about a 20 minute drive from *Alton Belle* and *Lumiere Place*, the nearest facilities. *Ameristar* and *Harrah's* would be about 30 minutes away.

Currently only one casino, *Isle of Capri—Caruthersville*, operates in southeastern Missouri. The nearest competitor is in Metropolis, Illinois which is about a two-hour drive away. A new casino in Cape Girardeau could compete with both existing casinos, in Caruthersville and Metropolis, IL, in cities such as Sikeston and other towns where travel to the newer casino is more convenient. This competition, however, would be along the outer periphery of each market and would therefore result in much less cannibalization of sales.

A key tool for estimating cannibalization effects is a spatial analysis technique called gravity modeling. Gravity modeling is a standard tool used by the casino industry and other businesses to better understand the market potential of a given location.

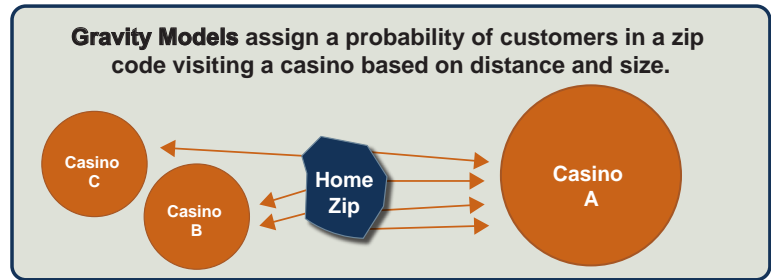
Like Newton's law of gravity, this analysis considers how an object's mass, a casino's total gaming positions of slots and tables, attracts customers at different distances. The level of attraction to a casino is a function of the casino's gaming positions (more positions equals more mass) and inversely related to the distance of customers in a given zip code. Add in a number of casinos and each one exerts a "gravitational" force based on size and distance (See *Gravity Model Illustration on next page*).



Southeast Missouri 60-Mile Casino Radius Map



The gravity model developed for this analysis used a radius of 30 miles in St. Louis and Kansas City and 60 miles in Cape Girardeau. Casinos in less populated areas tend to draw customers from a larger geographic area, hence the bigger radius.



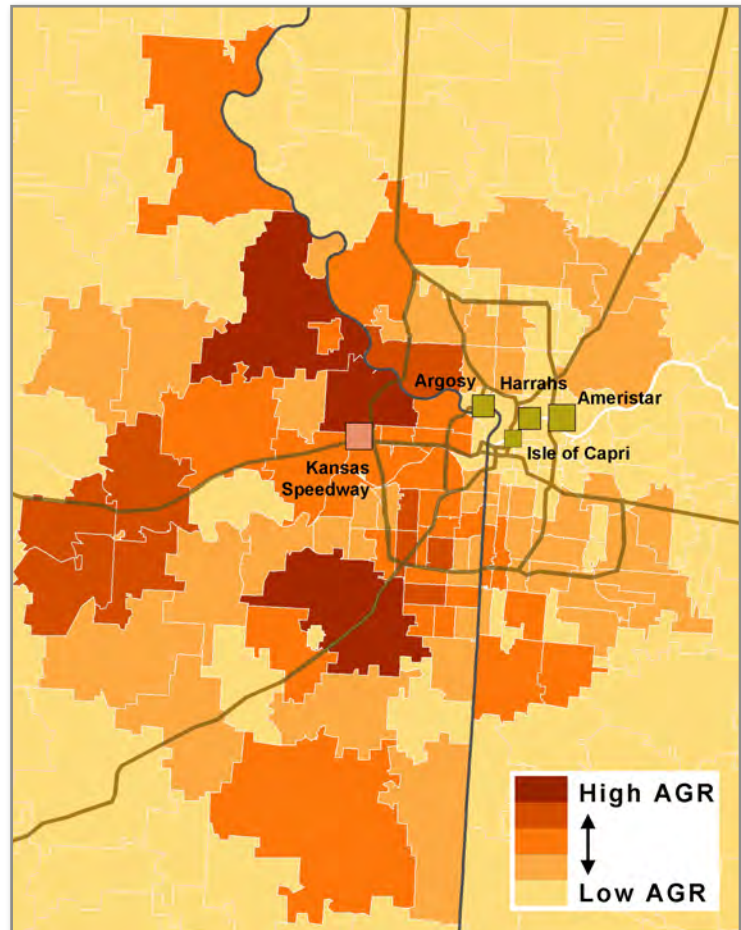
Gravity Model Illustration

Kansas Casino Gravity Model Test

As part of the preliminary questionnaires, Kansas City casinos reported future AGR estimates that included the impact of a new Kansas casino. One test of the gravity model was to gauge its results with the projections casinos provided as these operators must also predict cannibalization effects from new competition.

The 2,800+ gaming position *Hollywood Casino* at the Kansas City Speedway is expected to open in early 2012 with an AGR estimated at \$175 million. Existing Kansas City, Missouri casino estimates of AGR in that same year totaled \$632 million, down from \$717 million in 2011. MERIC gravity model analysis showed a greater decline in AGR with existing casinos only achieving \$607 million. Only one casino estimate differed greatly from the MERIC analysis.

The development of a gravity model with the knowledge of existing casino patron locations and the Kansas casino example gave MERIC confidence in the application of this model for further economic analysis.



Zip Code Gravity Model AGR Map for Kansas Casino





License Applicant Analysis

License applicants are required to submit an application to the Missouri Gaming Commission that includes initial investment and operational activities. In addition the applicants must submit a market study demonstrating the economic impact of the casino and the expected reduction in sales to existing gaming facilities.

Applicant information was reviewed to determine the reasonableness of assumptions for investment and operation activities. Information from existing casinos was used as an important gauge of reasonableness as much of this information is well tracked by the MGC.

The market studies were also reviewed in the context of existing casino market history, prior MGC studies, other casino analyses, and MERIC research. This information, combined with earlier questionnaires and research, provided a solid base for comparing the license applicants using two overall strategies:

1. Considering Only the First Phase for the Economic Analysis

Most applicants provided information on phase one and phase two investment and operation activities. Phase one included the initial construction and operation of the casino and related amenities. Phase two often included later investments, such as hotels or expanded gaming space, which depended on the initial success of the casino.

Phase one investments obviously have a higher likelihood of occurring than phase two as economic conditions will change with time and usually alter later investments. As requested by the MGC, only phase one was considered as it will have the most immediate, defined impact. Phase one includes a two-year investment period (2011-2012) and a five-year operations period (2013-2017).

2. Developing Three Cannibalization Scenarios

Three scenarios were developed to provide insights into how economic impacts would change given different cannibalization rates.

Worst Case Scenario:

This scenario assumes that the gravity model will cannibalize sales to the fullest extent given the size of the new casino, existing competitors, and the adult population. This high level of cannibalization is what existing casinos fear most. The worst case portrays a scenario that would be more likely if economic growth, following the U.S. recession, continues at a slow pace for years to come. As consumers have limited disposable incomes and the housing crisis has slowed population movements, future casino AGR growth would likely be constrained.

Best Case Scenario:

The *Lumiere Place* casino that opened in December 2007 was expected to cannibalize more sales than it actually did in the first year (Aubuchon & Kridel, 2008). In 2008 and 2009 the total St. Louis market, both Missouri and Illinois casinos, grew by 3.1 and 1.9 percent respectively. While this growth occurred on the Missouri side thanks in large part to the 2008 Illinois smoking ban, it does provide some evidence that limited market growth can occur.

While the *River City Casino* opened in March 2010, it is too early to determine longer-run cannibalization effects. However, it is clear that the new casino is taking sales from other existing St. Louis operations. From April to September 2010, older Missouri casinos in St. Louis were down \$40.8 million in AGR from the same period in 2009. Particularly hard hit was *Lumiere Place* (owned by the same company as *River City*) which was down \$16.5 million, followed by *Harrah's* (\$14.1 million) and *Ameristar* (\$10.2 million). These large drops in AGR from the prior year include some recessionary slow-down in spending but not much judging from other Missouri markets. Only two, *Argosy Riverside* and *Isle of Capri – KC*, had declines over the same period, totaling \$4.4 million, while the other six casinos had very modest gains totaling \$6.7 million.





To model a potential best case scenario for license applicants in the major metro markets of St. Louis and Kansas City, the *Lumiere Place* example was helpful as was the overall Missouri AGR growth rate in the past few years. The gravity model cannibalization rate was reduced by 3 percent per casino to proxy an overall market increase in AGR that seemed reasonable given examples of recent growth. The economic effect of the best case scenario is to increase the percentage of net new activity attributed to a new casino in the existing markets of St. Louis and Kansas City.

The best case scenario for St. Louis and Kansas City did not seem appropriate for Cape Girardeau as the nearest casino, in Caruthersville, is over 80 miles away. Given that distance a best case scenario of no displacement was assumed.

Average Case Scenario:

The third scenario is the average cannibalization rate for a new casino which is simply the middle point between the worst and best case scenarios. The average case provides a middle ground between complete gravity model cannibalization and more optimistic growth/no cannibalization assumptions. This scenario moderates the best case scenario in that casinos may see lower growth due to the prolonged effects of the recession or to market saturation in the larger metro areas.

Percent Net New Casino AGR Estimates for Each Scenario			
Casino Applicants	Worst Case	Average Case	Best Case
IOC-Cape Girardeau	89%	94%	100%
Paragon-Sugar Creek	13%	21%	29%
Casino Celebration-STL City	34%	45%	56%

Economic Impact Methods

The impact analysis was the culmination of prior research to develop reasonable assumptions and gravity models of future economic actions. This report includes the breakout of casino economic activities by construction phase, operations phase, and total impact. Finally, the economic impacts are discussed within the context of the surrounding metropolitan area.

While economic activity involves a range of information, a handful of key measures were identified for MGC consideration:

- ▶ Gross Domestic Product (GDP)
- ▶ Employment
- ▶ Net General Revenue
- ▶ Casino Adjusted Gross Receipts (AGR)
- ▶ Gaming and Admission Taxes



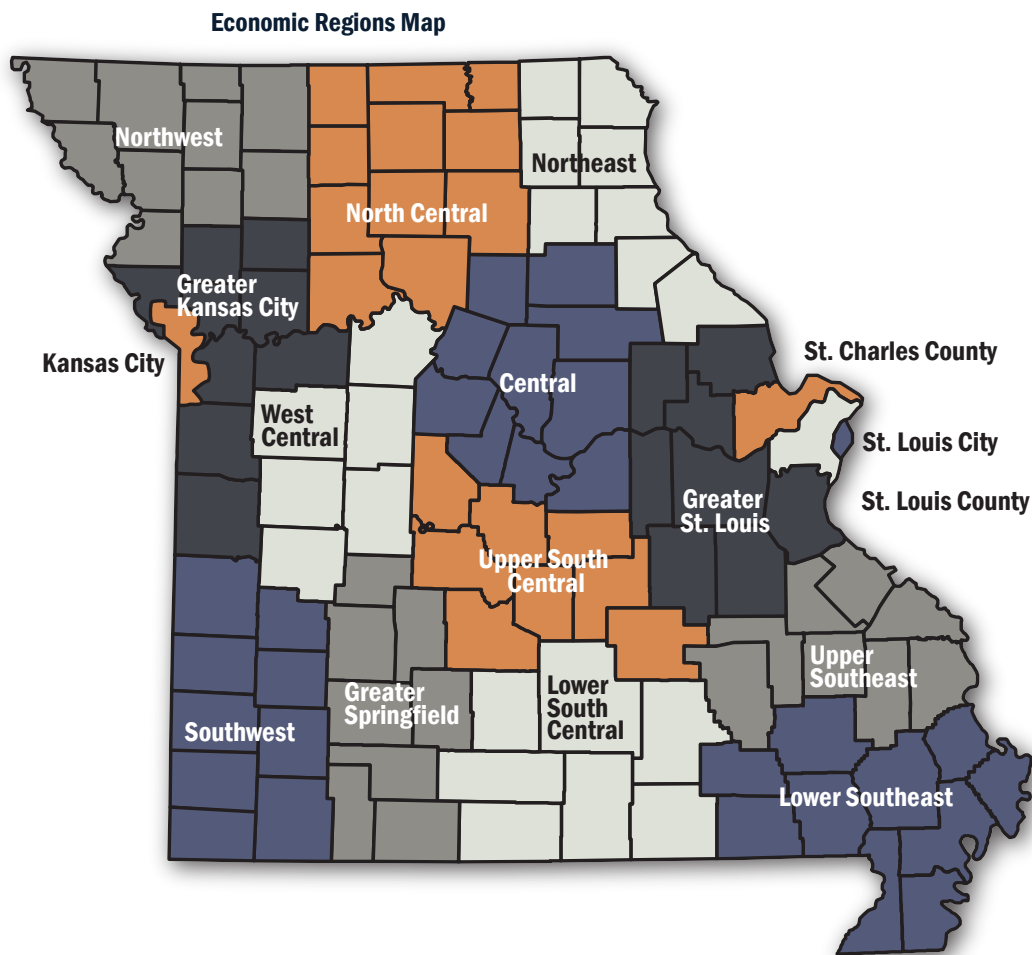


Gross Domestic Product (GDP), employment, and general revenue are analyzed with an economic model that estimates the direct and indirect impacts of a new casino. The initial construction investments and new casino operations will directly spur job creation and spending but additional spin-off impacts will include on-going casino purchases and worker spending on consumer goods and services. These combined spending patterns provide a larger impact to Missouri's economy than the direct casino activities alone.

Economic Model Overview

A seventeen-region economic model developed by Regional Economic Models, Inc. (REMI) was used to analyze economic impacts. The model has a number of significant features for economic forecasting to include:

- ▶ Input/Output modeling to determine industry spending linkages
- ▶ Econometric modeling to determine direct, intermediate, and induced impacts
- ▶ Regional purchasing coefficients to determine income leakages due to imports
- ▶ Dynamic, multi-year analysis allowing changes in one year to feed into the next
- ▶ Government spending response to population and economic migration changes





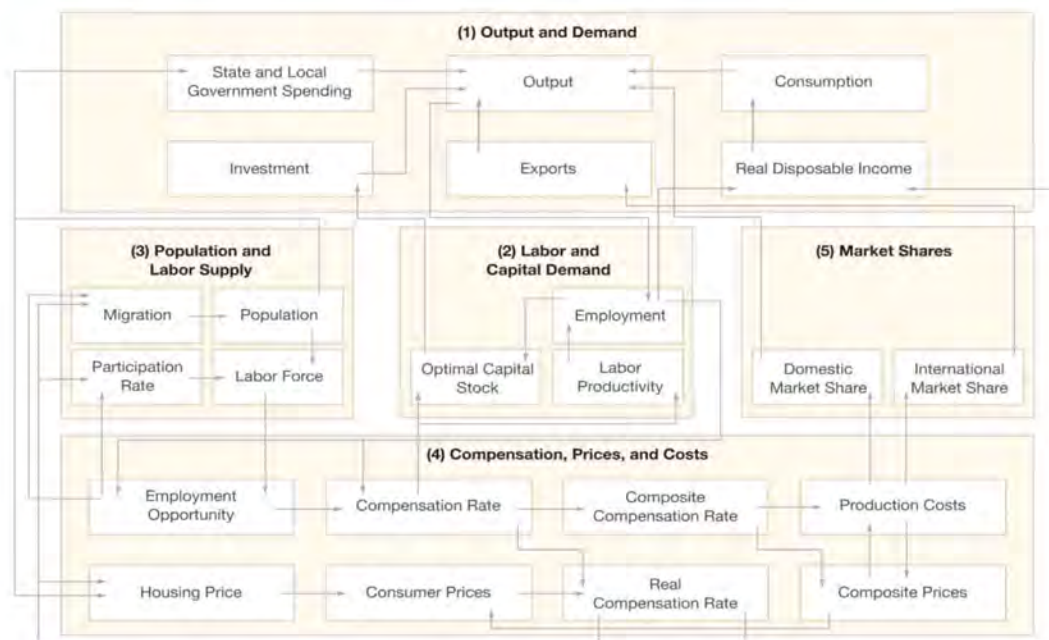
Although the model contains a large number of equations, the REMI illustration describes the underlying structure. Each economic block contains several interrelated components that connect to other blocks in the model. Most interactions flow both ways indicating a highly simultaneous structure.

The *Output and Demand Block* linkages form the core of the model. An input-output structure represents the inter-industry and final demand linkages by industry. The interaction between this block and the rest of the model is extensive.

For example, predicted outputs from the *Output and Demand Block* drive labor demand for workers in the *Labor and Capital Demand Block*. Labor demand interacts with labor supply in the *Compensation, Prices, and Costs Block*. Labor demand and wages affect economic migration patterns, income spending, and production cost in other model components which feed back into the *Output and Demand Block* and again run through the process.

In addition to REMI economic forecasting strengths, MERIC researchers calibrate the model with Missouri Office of Administration budget figures on an annual basis. This ensures that macro economic impacts that affect state tax collections and expenditures are modeled more precisely.

REMI Model Linkages (Excluding Economic Geography Linkages)



Source: REMI, Inc.





ECONOMIC ANALYSIS RESULTS

The economic analysis of the three casino applicants is divided into three sections:

- ▶ **Construction Phase Impacts**
Analysis of the short-term impact of casino and amenities construction over a two year time frame. Investment activity is considered new to the state as casino operations, which include sales cannibalization, have not begun in this stage.
- ▶ **Operations Phase Impacts**
Analysis of the five year impact of a new casino and amenities during operations. Cannibalization is a factor in the operations phase and displacement amount was determined using a gravity model. Results for the operations phase are displayed in a worst, average, and best case scenarios.
- ▶ **Total Impacts**
Analysis combining both the construction and operation phases.

Each of the sections above will be shown in terms of the overall net new impact on:

- ▶ Gross Domestic Product (GDP)
- ▶ Employment
- ▶ Net General Revenues
- ▶ Casino Adjusted Gross Receipts (AGR) — *Operations Phase Only*
- ▶ Gaming and Admission Taxes — *Operations Phase Only*

A legend key is used to differentiate the three casinos within the chart display. The colors associated with the casinos will remain the same throughout this section.

CHART KEY: ■ **CC:** Casino Celebration—St. Louis ■ **CG:** IOC—Cape Girardeau ■ **SC:** Paragon—Sugar Creek



CONSTRUCTION PHASE IMPACTS

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the largest measure of current production in an economy. It is final demand, or the value-added measure of production (revenues minus inputs) which calculates income flows to wages, profits, interest and rents.

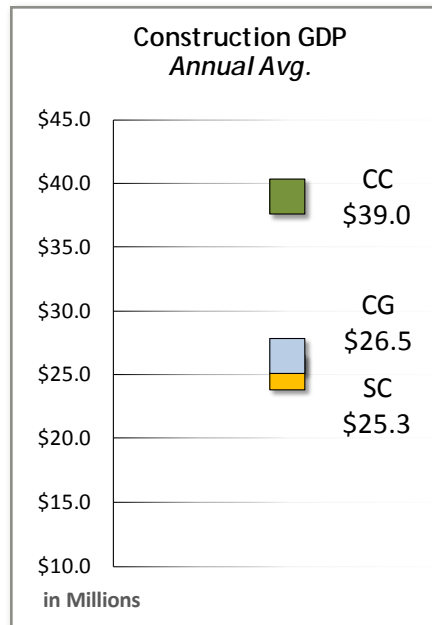


CHART KEY: ■ CC: Casino Celebration—St. Louis ■ CG: IOC—Cape Girardeau ■ SC: Paragon—Sugar Creek

Construction Phase Annual Average GDP

Casino Celebration—St. Louis has the largest estimated annual average GDP impact during the construction phase at \$39 million, well above the other two applicants. *Isle of Capri—Cape Girardeau* is second with \$26.5 million and *Paragon* is third at \$25.3 million.

This ranking order is directly related to the amount and location of the initial project investment. *Casino Celebration* has the largest project investment of the three casinos, at \$131.5 million, and is located in the largest Missouri metro where higher wages drive greater spending.





CONSTRUCTION PHASE IMPACTS

Employment

Total employment counts the number of expected full-time or part-time jobs due to the economic activity. This measure includes direct jobs from construction, indirect jobs from intermediate purchases, and induced jobs from employee spending.

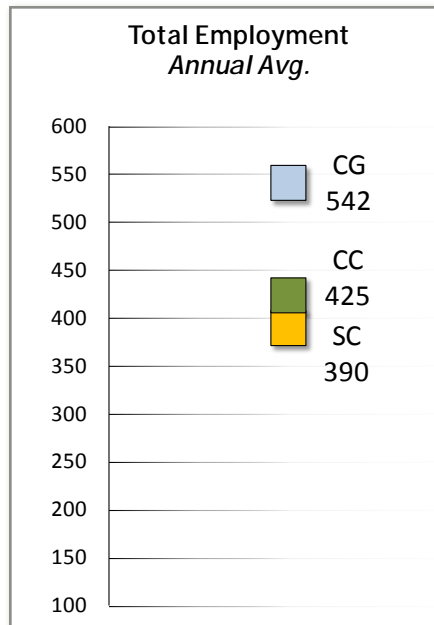


CHART KEY: ■ CC: Casino Celebration—St. Louis ■ CG: IOC—Cape Girardeau ■ SC: Paragon—Sugar Creek

Construction Phase Annual Average Employment

Isle of Capri—Cape Girardeau has the largest estimated employment impact during the construction phase at 542. *Casino Celebration* is second with 425 and *Paragon* is third with 390. Even though *Casino Celebration* has the larger investment amount, *Isle of Capri* had a different mix of spending included in the investment breakout which affected the region more strongly with regards to number of jobs.

Isle of Capri—Cape Girardeau's spending includes a payment to the city of Cape Girardeau which in turn generates more local government spending. *Isle of Capri* also estimates higher construction expenses versus design expenses than *Casino Celebration*. This leads to a circumstance where the number of jobs is greater for *Isle of Capri* even though wages are lower than *Casino Celebration*. The lower overall wages explain why GDP is still greater with *Casino Celebration*.



CONSTRUCTION PHASE IMPACTS

Net General Revenue

Net General Revenue (GR) measures the estimated state tax revenues minus expenditures that are expected to be generated by the economic activity.

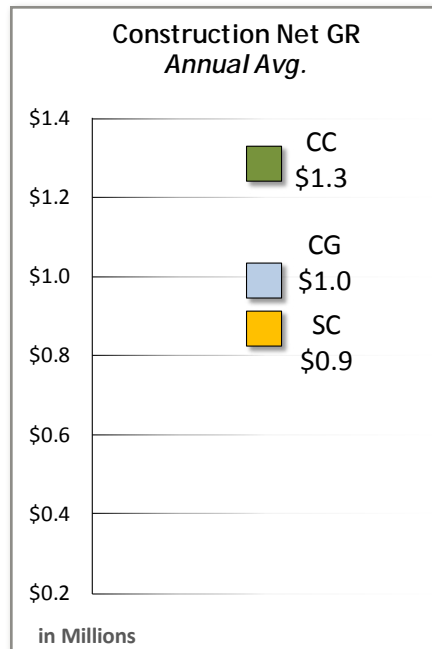


CHART KEY: ■ CC: Casino Celebration—St. Louis ■ CG: IOC—Cape Girardeau ■ SC: Paragon—Sugar Creek

Construction Phase Annual Average Net GR

Casino Celebration has the largest estimated Net GR impact during the construction phase at \$1.3 million. *Isle of Capri—Cape Girardeau* is second with \$1.0 million and *Paragon* is third at \$0.9 million. This ranking order is related to the amount of project investment and personal income generated during the construction phase. *Casino Celebration* has the largest portion of the three casinos and hence the largest tax impact.





CONSTRUCTION PHASE IMPACTS

Summary of the Construction Phase

Casino Celebration—St. Louis has the largest construction phase impact in GDP and Net GR. The larger investment (\$131.5 million) and St. Louis location with higher wages created more GDP and related taxes.

IOC—Cape Girardeau, with a \$125 million initial investment, has the highest employment and second highest GDP and Net GR impact. The extra government spending and greater percentage of construction investment versus design costs generated more jobs than *Casino Celebration*. However, these jobs pay lower wages which lowered the overall GDP and tax impact.

Paragon—Sugar Creek is third in all three impact variables primarily due to a lower initial investment of \$107 million.

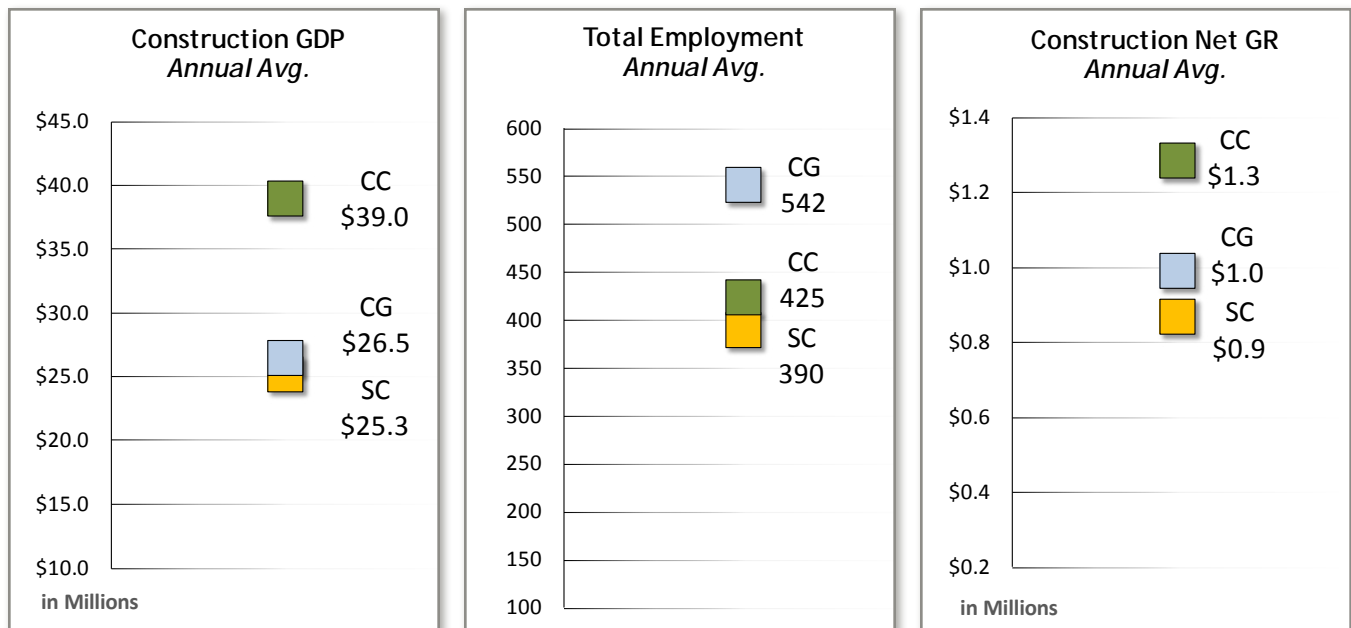


CHART KEY: ■ CC: Casino Celebration—St. Louis ■ CG: IOC—Cape Girardeau ■ SC: Paragon—Sugar Creek



OPERATION PHASE IMPACTS

Cannibalization Assumptions in the Operations Phase

A gravity model was developed to estimate three cannibalization scenario effects during the operations phase of a new casino. The model used projected adult population (21+) and total gaming positions as primary inputs. A radius of 30 miles was used in Kansas City and St. Louis and 60 miles in Cape Girardeau. See Analysis Methodology section for more details.

The estimated cannibalization of existing sales was used to calculate a Net New AGR for each casino applicant under three different scenarios; a worst, average, and best case. This Net New AGR also determined how much of the gaming taxes, GDP, employment, and general revenue was new to the state following the logic that reduced sales from existing casinos would lead to job layoffs and negative economic consequences.

AGR Estimates for First Year of Operations Phase

Casino Celebration–STL Casino Year One AGR Estimate

Casino	Worst	Average	Best
Casino Celebration (CC) AGR	\$121.2M	\$121.2M	\$121.2M
Existing STL-MO Casino Loss	-\$80.0M	-\$66.7M	-\$53.3M
CC Net New AGR	\$41.2M	\$54.5M	\$67.9M
CC % Net New	34%	45%	56%

IOC–Cape Girardeau Casino Year One AGR Estimate

Casino	Worst	Average	Best
IOC-Cape Girardeau (CG) AGR	\$71.4M	\$71.4M	\$71.4M
Caruthersville Casino Loss	-\$8.2M	-\$4.1M	-\$0.0M
CG Net New AGR	\$63.2M	\$67.3M	\$71.4M
CG % Net New	89%	94%	100%

Paragon–Sugar Creek Casino Year One AGR Estimate

Casino	Worst	Average	Best
Paragon-Sugar Creek (SC) AGR	\$97.4M	\$97.4M	\$97.4M
Existing KC-MO Casino Loss	-\$84.7M	-\$76.9M	-\$69.2M
SC Net New AGR	\$12.7M	\$20.5M	\$28.2M
SC % Net New	13%	21%	29%

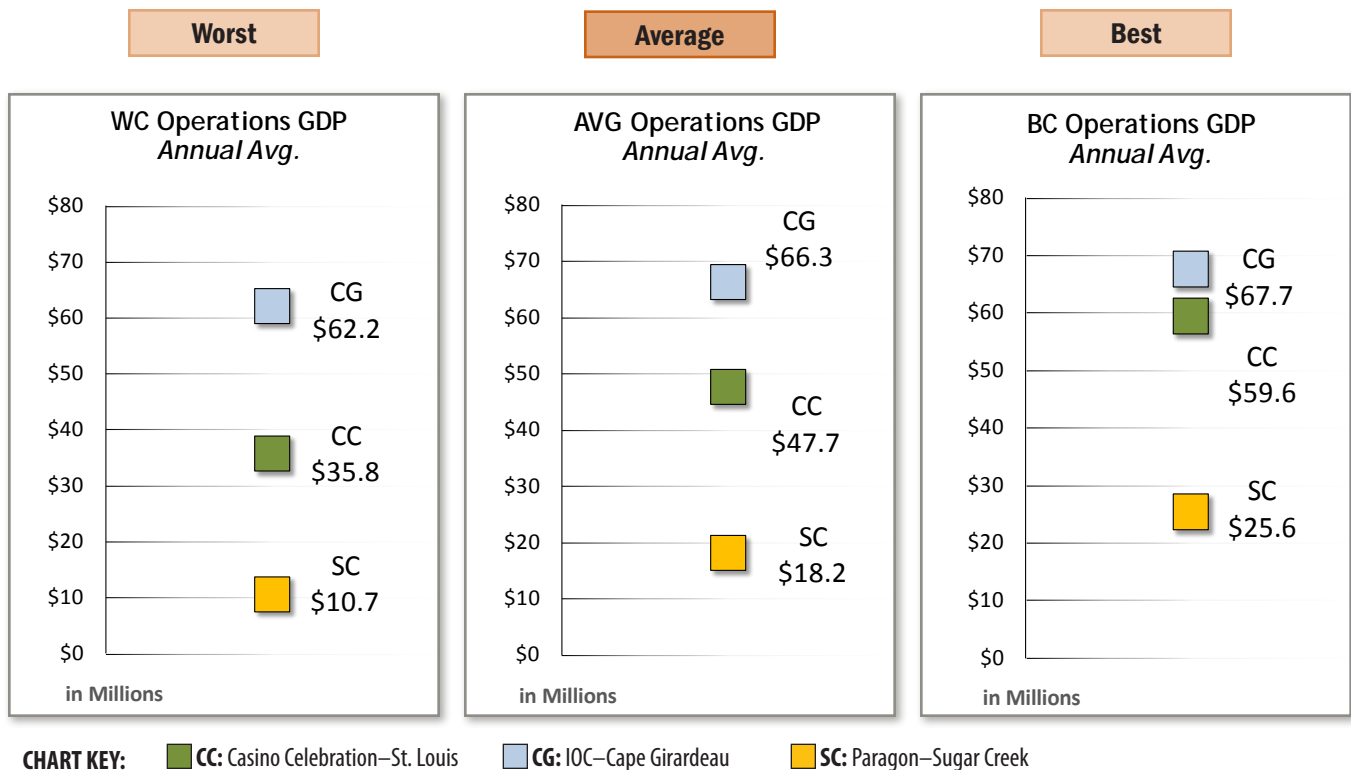




OPERATION PHASE IMPACTS

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the largest measure of current production in an economy. It is final demand, or the value-added measure of production (revenues minus inputs) which calculates income flows to wages, profits, interest and rents.



Operation Phase Annual Average GDP

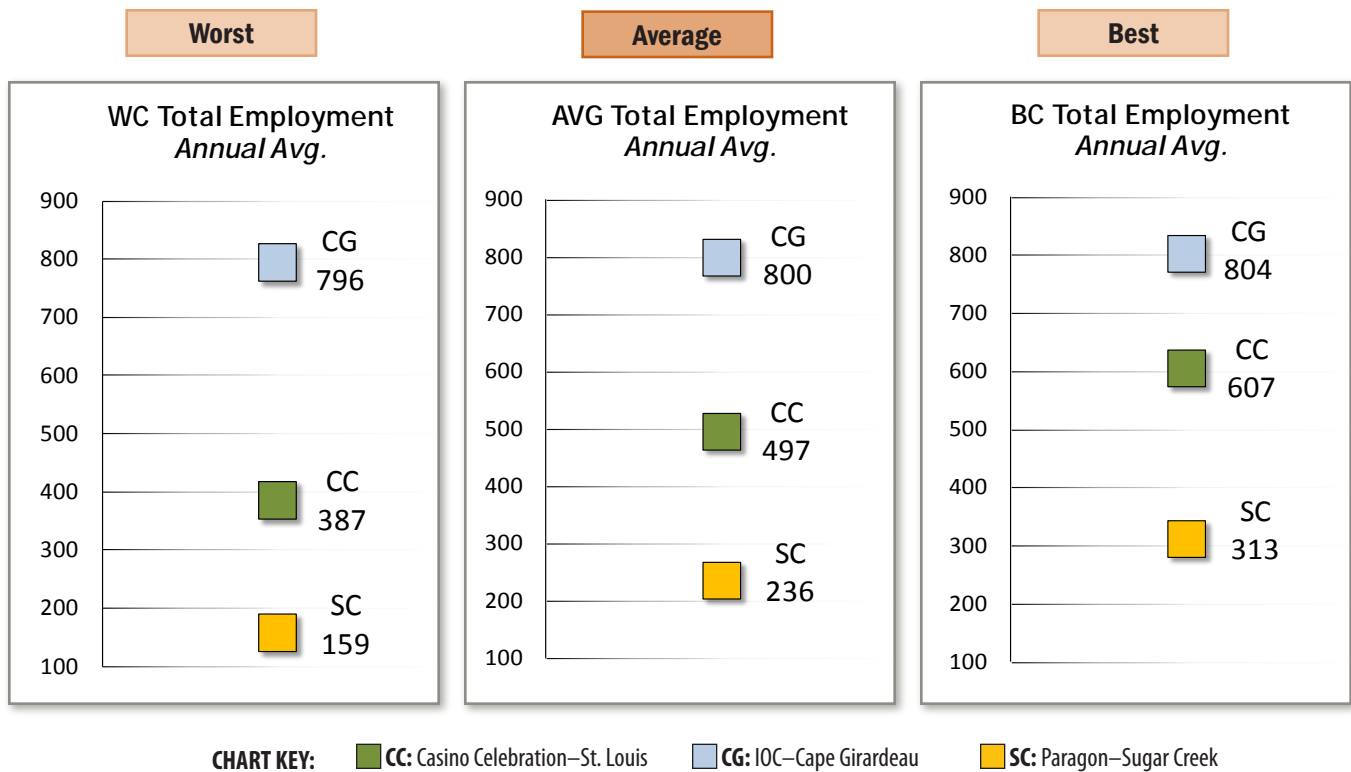
Isle of Capri—Cape Girardeau has the largest estimated GDP impact during the five year operations phase in each of the three scenarios. While *Casino Celebration* is second in all scenarios, it approaches *Isle of Capri* in the best case scenario with a difference of \$8 million. *Paragon Gaming* is in third for all three scenarios.



OPERATION PHASE IMPACTS

Employment

Total employment counts the number of expected full-time or part-time jobs due to the economic activity. This measure includes direct jobs from the casino, indirect jobs from casino purchases, and induced jobs from employee spending.



Operation Phase Annual Average Employment

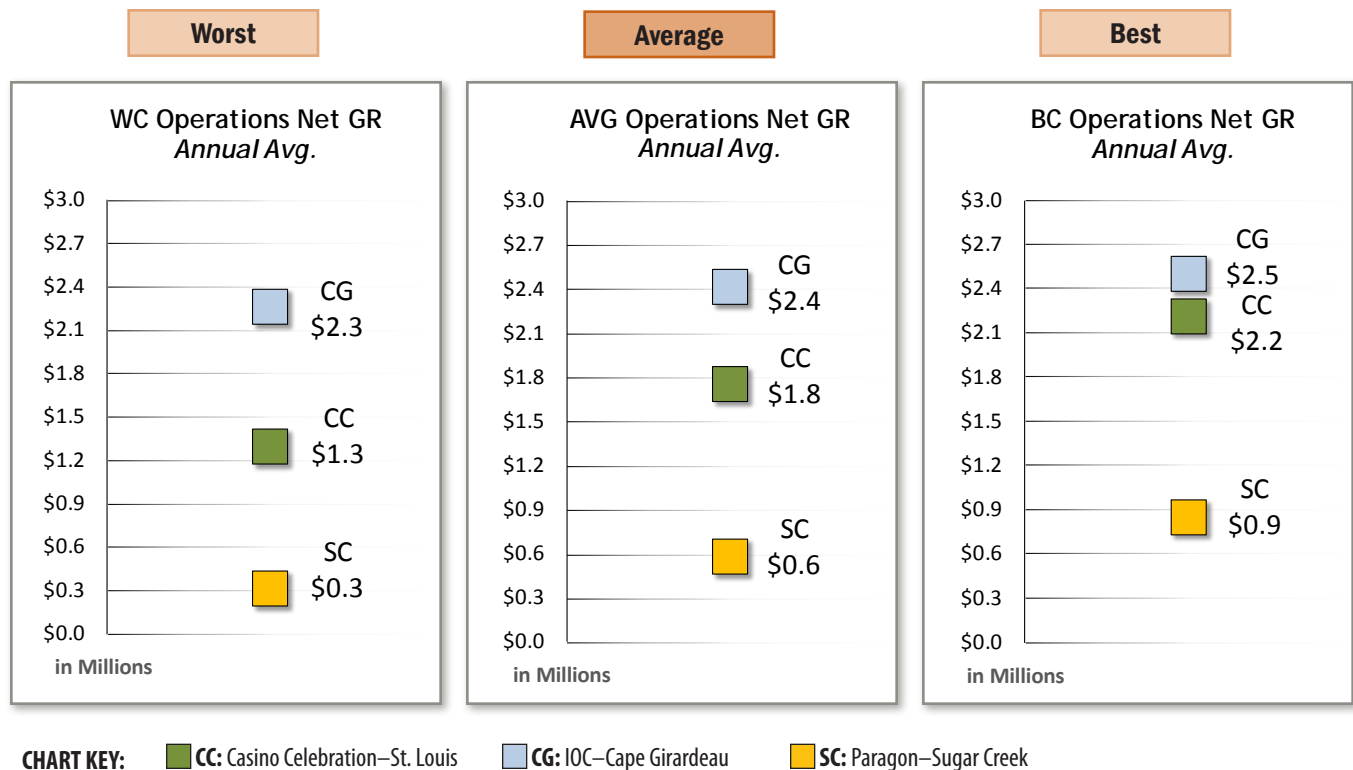
Isle of Capri—Cape Girardeau has the largest total employment impact during the five year operations phase in each of the three scenarios. *Casino Celebration* is second and *Paragon* is third. All the casinos directly employ a similar-sized workforce, but higher cannibalization rates for *Casino Celebration* and *Paragon* lower the net new jobs to Missouri.



OPERATION PHASE IMPACTS

Net General Revenue

Net General Revenue (GR) measures the estimated state tax revenues minus expenditures that are expected to be generated by the economic activity. This measure is different from gaming and admission taxes collected directly from the casino which is shown separately.



Operation Phase Annual Average Net GR

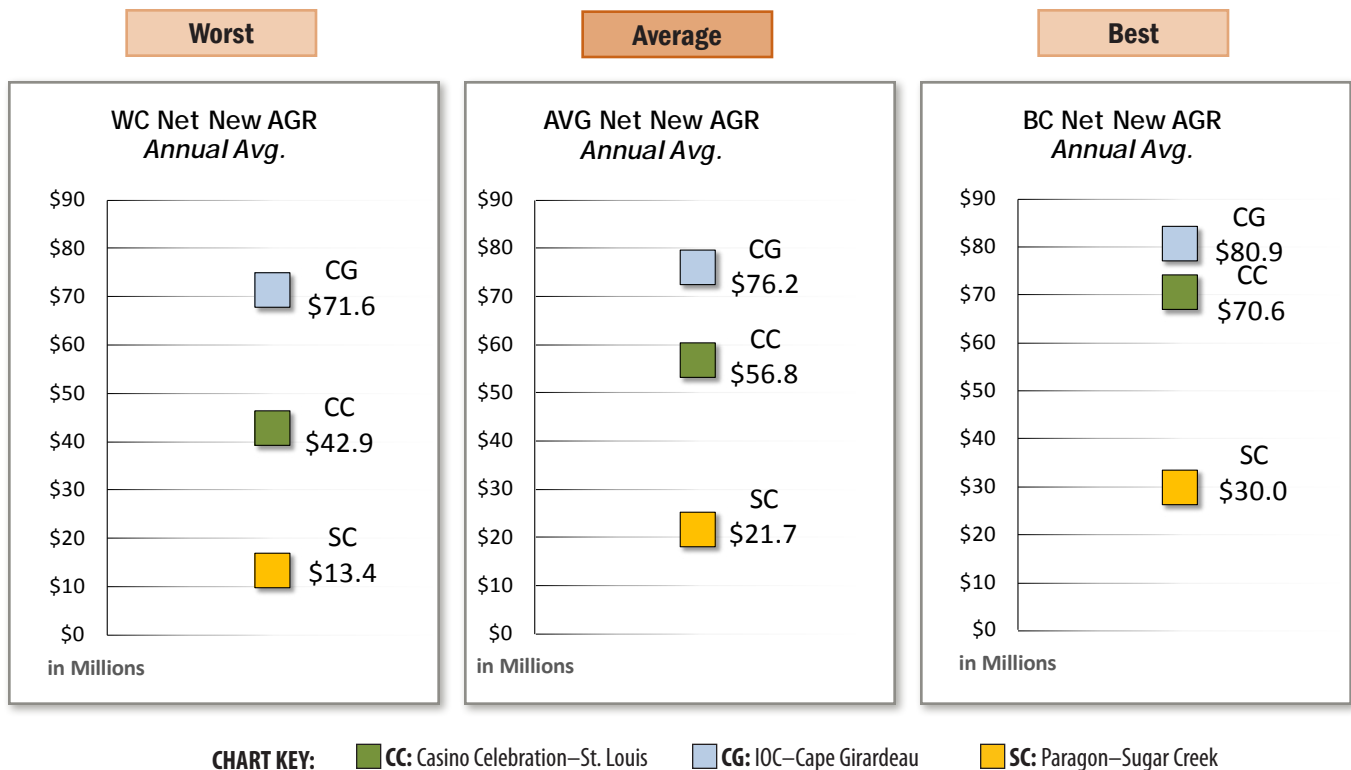
Isle of Capri—Cape Girardeau has the largest Net General Revenue impact during the operations phase in each of the three scenarios. *Casino Celebration* is second for all scenarios; however, in the best case scenario it does come within \$300,000 of *Isle of Capri*. *Paragon* is third in all three scenarios.



OPERATION PHASE IMPACTS

Net New AGR

Net new adjusted gross receipts (AGR) are a key variable that considers a new casino's contribution to Missouri's overall gaming income. Figures are adjusted for expected AGR cannibalization at existing casinos.



Operation Phase Annual Average Net New AGR

Isle of Capri—Cape Girardeau has the largest estimated Net New AGR in each of the three scenarios over five years. *Casino Celebration* is second and *Paragon* third for all scenarios.

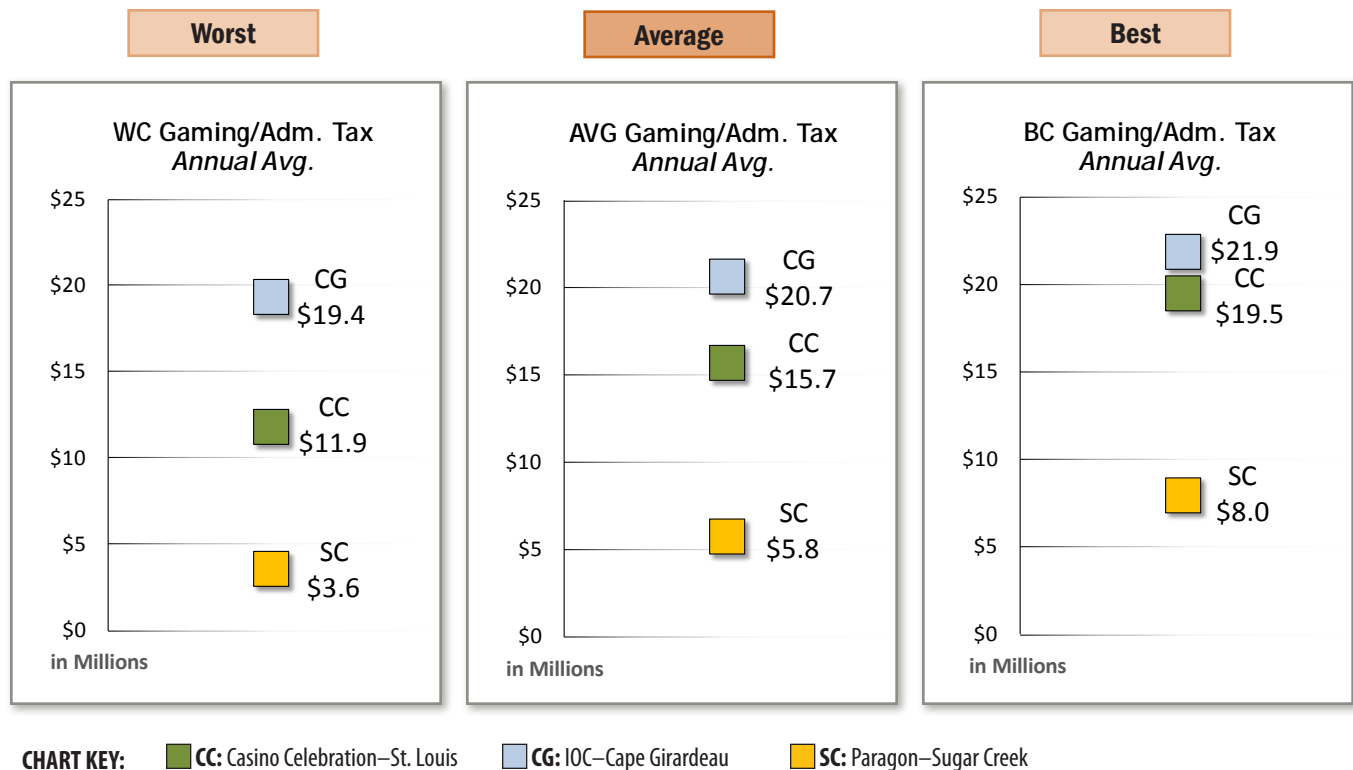
Cannibalization of existing casino sales is the reason *Casino Celebration* and *Paragon*, both larger casinos than *Isle of Capri*, have lower net new AGR over the five year operations period. The charts show that *Casino Celebration* and *Paragon*, to a lesser extent, gain AGR at a faster rate as scenarios improve from worst to best. This is due to the larger initial size and greater population growth in St. Louis and Kansas City.



OPERATION PHASE IMPACTS

Net New Gaming and Admission Taxes

State and local gaming and admission taxes are collected by casinos and provide funds for key services. As these taxes are largely a function of Net New AGR the results will be similar.



Operation Phase Avg. Annual Net New Gaming & Admission Taxes

Isle of Capri—Cape Girardeau has the largest estimated Net New State and Local Gaming and Admission Taxes in each of the three scenarios. *Casino Celebration* is second and *Paragon* is third for all three scenarios.

Casino Celebration and *Paragon* produce higher direct AGR and gaming taxes than *Isle of Capri*, but also cannibalize existing casinos to a greater extent.



OPERATION PHASE IMPACTS

Summary of the Operation Phase

Isle of Capri—Cape Girardeau has the highest Gross Domestic Product, Employment, Net General Revenue, Net New AGR, and Gaming Tax impact in all three scenarios over the five year operations period when sales cannibalization is considered. *Casino Celebration* is second in all five impact variables while *Paragon* is third. The charts show the Average Scenario during the five year operations phase.

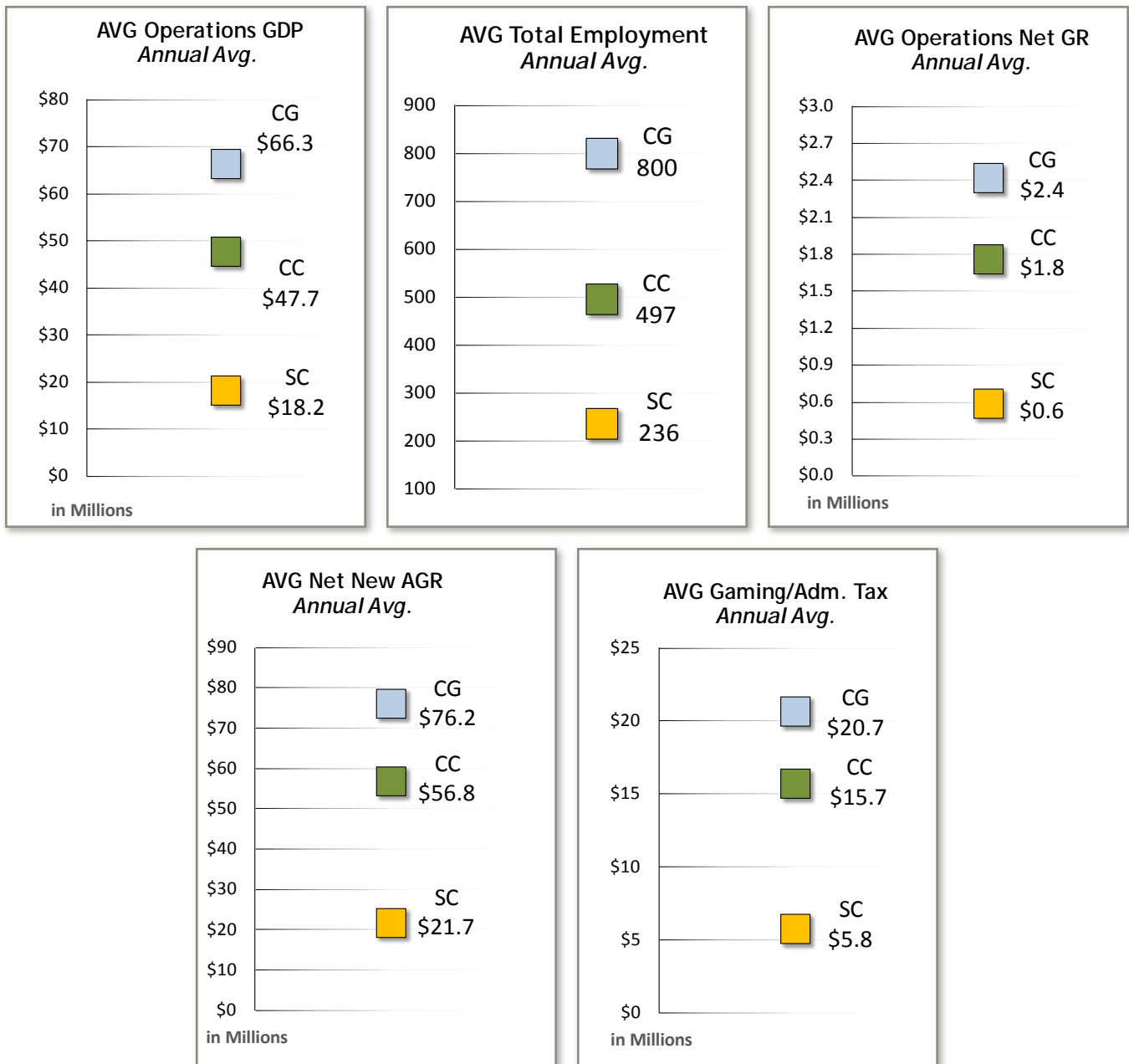


CHART KEY: ■ CC: Casino Celebration—St. Louis ■ CG: IOC—Cape Girardeau ■ SC: Paragon—Sugar Creek





TOTAL IMPACTS: WORST SCENARIO

Worst Case Total Impact for the Combined Phases

Charts show the annual average figures over seven years (two construction and five operational years) for each casino in the worst case scenario. *Isle of Capri–Cape Girardeau* has the largest total GDP, Employment, Net GR, and Net New AGR impacts in this scenario. *Isle of Capri* has the lowest cannibalization rate and the second highest project investment of the three casinos.

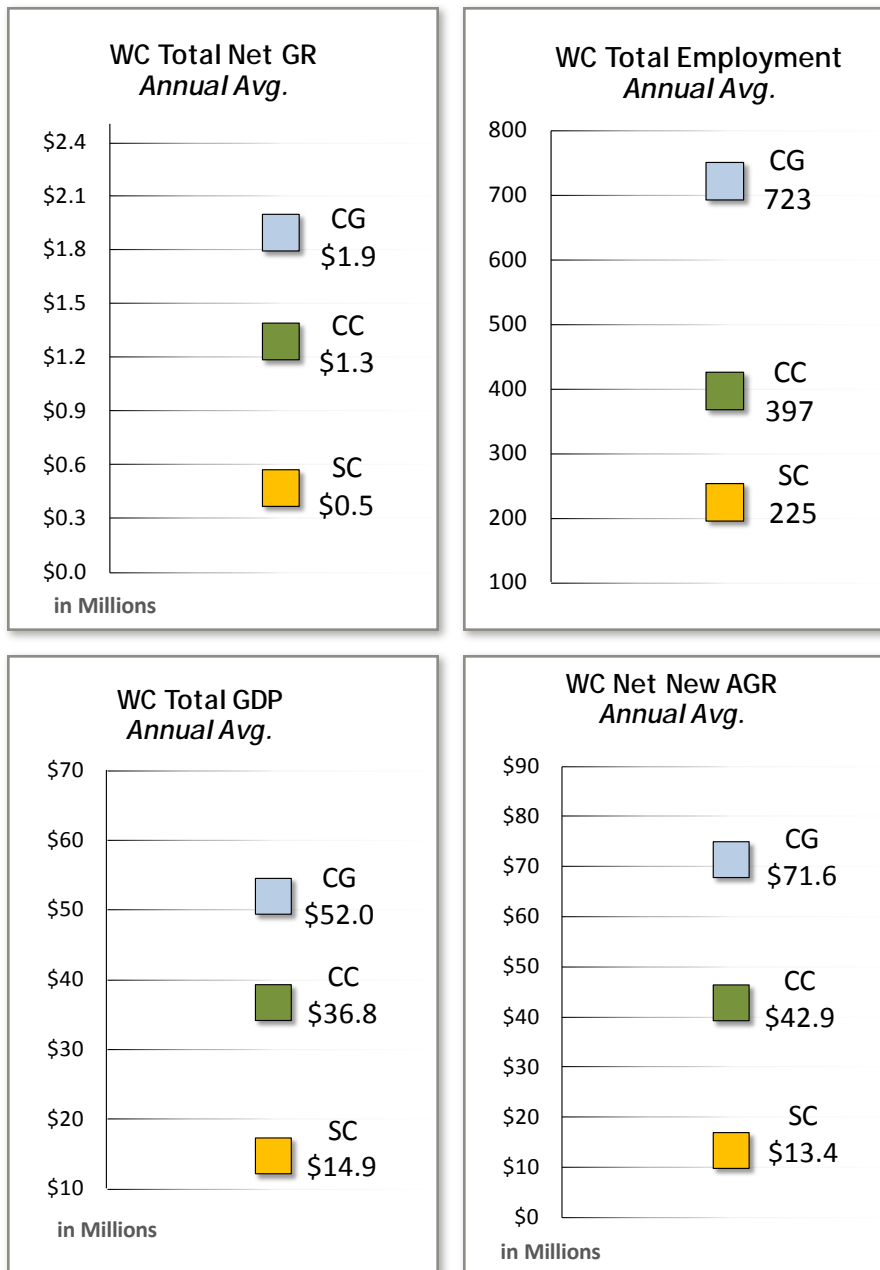


CHART KEY: ■ CC: Casino Celebration–St. Louis ■ CG: IOC–Cape Girardeau ■ SC: Paragon–Sugar Creek



TOTAL IMPACT: AVERAGE SCENARIO

Average Case Total Impact for the Combined Phases

Charts show the annual average figures over seven years (two construction and five operational years) for each casino in the average case scenario. *Isle of Capri–Cape Girardeau* has the largest total GDP, Employment, Net GR, and Net New AGR impacts in this scenario. *Isle of Capri* has the lowest cannibalization rate and the second highest project investment of the three casinos.

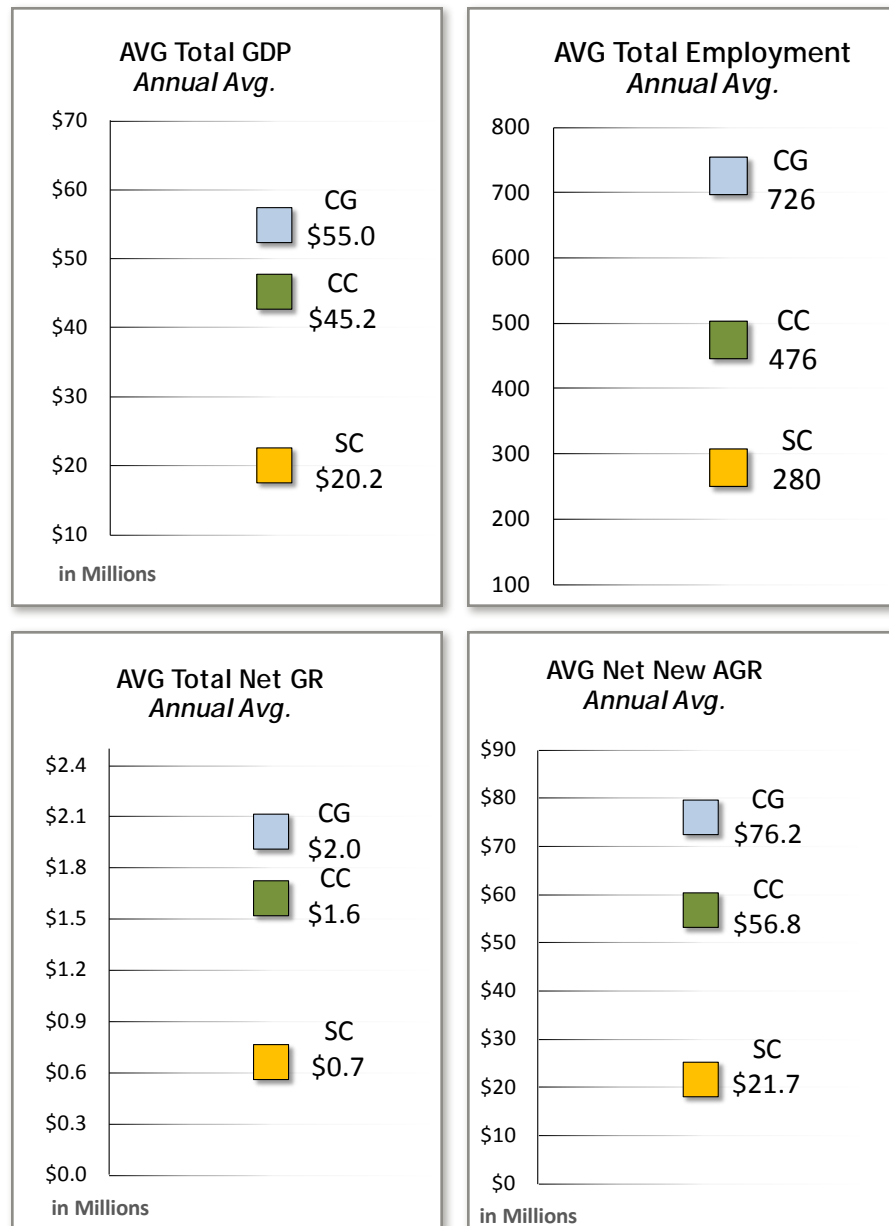


CHART KEY: ■ CC: Casino Celebration–St. Louis ■ CG: IOC–Cape Girardeau ■ SC: Paragon–Sugar Creek





TOTAL IMPACTS: BEST SCENARIO

Best Case Total Impact for the Combined Phases

Charts show the annual average figures over seven years (two construction and five operational years) for each casino in the best case scenario. *Isle of Capri–Cape Girardeau* has the largest total GDP, Employment, Net GR, and Net New AGR impacts in this scenario. *Casino Celebration* was a very close second in both GDP and Net GR. *Casino Celebration* was much closer to *Isle of Capri* in the Best Case Scenario because the market growth assumption has a much larger population effect in the St. Louis region than in the Cape Girardeau.



CHART KEY: ■ CC: Casino Celebration–St. Louis ■ CG: IOC–Cape Girardeau ■ SC: Paragon–Sugar Creek



COMMUNITY CONTEXT

Economic impacts help to quantify the new dollars and jobs going into a region. It is also beneficial to understand what those outcomes mean to a community in terms of the share of total employment, wages, and Gross Regional Product that each project generates.

Employment

Paragon has the largest direct employment (not considering cannibalization). *Isle of Capri—Cape Girardeau*, with the smallest direct employment, would have the largest percentage impact on unemployment as the labor pool is much smaller in Cape Girardeau's metro area compared to St. Louis or Kansas City. *Casino Celebration* is in a region with the highest unemployment rate; however, the casino's employment is a lower percentage of total MSA unemployment than the other casino applicants.

Employment Context			
Casino Applicants	Casino Employment	2009 MSA Unemp. Rate	Casino Emp. as % of Unemp.
IOC-Cape Girardeau	516	7.9%	13.74%
Paragon-Sugar Creek	573	8.6%	0.64%
Casino Celebration-STL City	565	9.9%	0.40%

Wages

Kansas City and St. Louis Metro average wages are higher than Cape Girardeau which is reflected in the GDP calculations. *Isle of Capri—Cape Girardeau* wages are closer to the regional average than the other applicants.

Wage Context			
Casino Applicants	Casino Average Wage	MSA Average Wage	% of MSA Average Wage
IOC-Cape Girardeau	\$28,191	\$29,763	95%
Paragon-Sugar Creek	\$35,191	\$41,783	84%
Casino Celebration-STL City	\$34,690	\$42,578	81%

Gross Regional Product

Isle of Capri—Cape Girardeau has the largest GRP impact of all casino applicants at \$47.6 million and represents 1.6 percent of the metro's GRP. *Casino Celebration* is not far behind at \$44.9 million; however, its impact in terms of percentage of GRP is lower at 0.03 percent.

GRP Context			
Casino Applicants	Added GRP (Average)	MSA GRP	% of GRP
IOC-Cape Girardeau	\$47.6M	3 Billion	1.60%
Paragon-Sugar Creek	\$19.7M	101 Billion	0.02%
Casino Celebration-STL City	\$44.9M	128 Billion	0.03%





SUMMARY OF TOTAL ECONOMIC ANALYSIS

The three casino applicants for Missouri's thirteenth license were analyzed with regards to overall economic impact, gaming/admissions tax impact, and community context. Three estimates were used to evaluate how the impacts would change given worst, average, and best case scenarios.

Economic Impact Analysis

Results from the total economic impact analysis, which considers sales cannibalization, indicate that *Isle of Capri* has the overall advantage in all scenarios. *Casino Celebration* is second and *Paragon* is third in all cases.

Isle of Capri has the highest values in all variables with the average scenario generating \$55 million in Gross Domestic Product; \$9.8 million above *Casino Celebration* and \$34.8 million above *Paragon*. *Isle of Capri* generates net new general revenues of \$2 million in the average scenario; \$400,000 above *Casino Celebration* and \$1.3 million ahead of *Paragon*.

Isle of Capri generates net new casino AGR of \$76.2 million in the average scenario, which is \$19.4 million above *Casino Celebration* and \$54.5 million above *Paragon*.

In terms of employment in the average scenario, *Isle of Capri* generates 726 new direct and indirect jobs, 250 more than *Casino Celebration* and 446 more than *Paragon*.

Scenario Summary on Four Key Variables

Worst Case	Average Case	Best Case
IOC-Cape Girardeau has the highest values in all four variables of GDP, Employment, Net General Revenue, and Net New Casino AGR.	IOC-Cape Girardeau has the highest values in all four variables of GDP, Employment, Net General Revenue, and Net New Casino AGR.	IOC-Cape Girardeau has the highest values in all four variables of GDP, Employment, Net General Revenue, and Net New Casino AGR.

***Casino Celebration*—STL was 2nd in all four variables in all scenarios.**
***Paragon*—Sugar Creek was 3rd in all four variables in all scenarios.**



Gaming and Admissions Tax Impact Analysis

After adjusting for cannibalization effects, the *Isle of Capri* ranks the highest in gaming and admission taxes generated in all three scenarios. Under the average scenario, *Isle of Capri* is expected to generate \$20.7 million in net new state and local gaming/admission taxes, \$5 million above *Casino Celebration* and \$14.9 million above *Paragon*.

In the worst scenario, *Isle of Capri* is expected to produce \$19.4 million in state and local gaming/admission taxes, \$7.5 million above *Casino Celebration* and \$15.8 million above *Paragon*.

The results are much closer under the best scenario for the top two casinos. *Isle of Capri* is estimated to generate \$21.9 million in state and local gaming/admission taxes. *Casino Celebration* is only \$2.4 million behind with \$19.5 million in gaming/admission taxes and *Paragon* is \$13.9 million under *Isle of Capri* with estimated new net gaming/admission taxes of \$8.0 million.

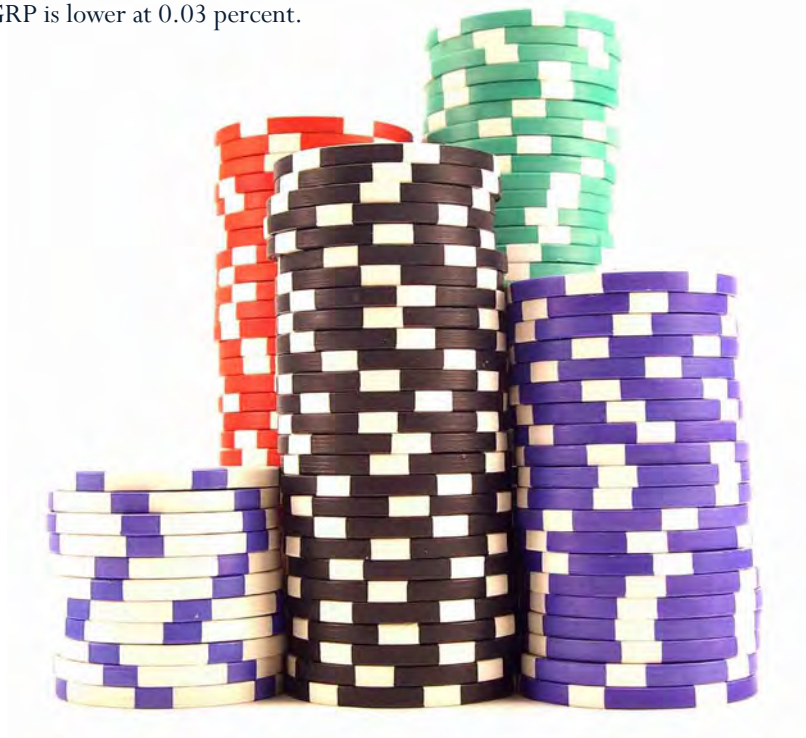
Community Context

Community context compares the benefits of each project to its overall share of the regional economy with regard to unemployment, wages, and Gross Regional Product (GRP). The analysis shows that the relative economic impact of these variables will be felt more strongly in Cape Girardeau than in the larger metros of St. Louis and Kansas City.

Isle of Capri, with the smallest direct employment, would have the largest percentage impact on unemployment, 13.74 percent, as the labor pool is much smaller in Cape Girardeau's metro area compared to St. Louis or Kansas City. *Casino Celebration* is in a region with the highest unemployment rate; however, the casino's employment is a lower percentage of total unemployment than the other casino applicants at 0.40 percent.

Kansas City and St. Louis Metro average wages are higher than Cape Girardeau which is reflected in GDP calculations. *Isle of Capri* wages, at 95 percent of the area average, are closer to the regional average than the other applicants.

Isle of Capri has the largest GRP impact of all casino applicants at \$47.6 million and represents 1.6 percent of the metro's GRP. *Casino Celebration* is not far behind at \$44.9 million; however, its impact in terms of percentage of GRP is lower at 0.03 percent.





NOTES

Limitations

This report includes estimates and projections from a variety of sources and from analysis conducted by MERIC. While MERIC believes these expectations are reasonable and gives the MGC significant measures to understand the applicants' economic impacts, there is no assurance the predicted outcomes will be realized given that the economy, casino investments, and underlying assumptions can change over time.

Primary Data Sources

- Zip-code population estimates and projections derived from ESRI Business Analyst Demographic Estimates. 2014 MSA population projections also from Moody's Analytics Inc.
- 2008 MSA GDP figures from the Bureau of Economic Analysis.
- Unemployment rates and figures from the Bureau of Labor Statistics and MERIC.
- Metropolitan Statistical Area (MSA) 2009 population estimates from the U.S. Census Bureau.
- Current and historical casino monthly market and financial analysis provided by the Missouri Gaming Commission.
- Indirect and total economic impact estimates derived from the Regional Economic Models, Inc. (REMI) Policy Insight model.

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APPENDIXES

A1. Economic Analysis Questionnaire for Existing Missouri Casinos

COMPETITIVE DISPLACEMENT CONSIDERATIONS

Existing Casino Information

1. Establishment name:
2. Address:

Gaming Patron Characteristics

1. Population (ages 21+) of market area:
2. Percentage of market area population (ages 21+) expected to participate in a gaming activity:
3. Estimated percentage of annual visits by:
 - a. Local Area Patrons (typically within 60 minute drive)
 - b. Overnight Tourists
 - c. Traffic Intercept
4. Average travel distance of a typical market area patron:
5. Estimated percentage of non-Missouri patrons:
6. Please provide a patron count by zip code.

A Microsoft Excel document with the aggregate count of patrons by zip code or a table of all patrons (identified only as patron 1, 2, 3, etc.) and zip code would be most useful. Documents should not identify any individual by name or street address. All information would be kept confidential.

Revenues and Competition in Local Area

1. List of main casino competitor in local area:
2. Five-year revenue estimates in dollars (2011-2015):
3. What main factors explain the revenue estimates?
4. Five-year revenue estimates in dollars (2011-2015) assuming each case (slot/table numbers are approximate):
 - a. One New Market Small Competitor (1,000+ or Less Slots, 20 or Less Tables):
OR
 - b. One New Market Medium Competitor (1,000 to 2,000 Slots, 20 to 70 Tables):
OR
 - c. One New Market Large Competitor (2,000+ Slots, 70+ Tables):
5. Which of the above competitors (small, medium, or large) would compete most with your operation?
6. Please provide any additional information, such as a recent market study, that might be applicable to the economic analysis.





A2. Economic Analysis Questionnaire for License Applicants

PART ONE

Please submit answers by August 1, 2010

INVESTMENT PHASE

Location and Ownership

1. Project location (city and/or zip code):
2. Ownership location and control structure:

Estimated Development Cost

3. Land cost:
4. Construction of building and supporting infrastructure:
5. Durable equipment purchases (computers, tables, etc.):

Estimated Investment Timing

6. Start year for construction:
7. Start year for casino operations:

OPERATION PHASE

Activity Details

1. Casino Activities:
 - a. Casino gaming floor square footage:
 - b. Number of slots and tables:
 - c. Patron capacity:
 - d. Estimated number of employees:
 - e. Expected annual adjusted gross revenue:
2. Other Business Activities:
 - a. Restaurant(s)
 - i. Number of restaurants:
 - ii. Estimated number of employees:
 - b. Hotel(s)
 - i. Hotel rooms:
 - ii. Expected occupancy rate:
 - iii. Estimated number of employees:
 - c. Retailer(s)
 - i. Number of retailers:
 - ii. Estimated number of employees:
 - d. Other(s)
 - i. Other activities:
 - ii. Estimated number of employees per activity:



PART TWO

Please submit answers as soon as known or no later than application deadline

COMPETITIVE DISPLACEMENT CONSIDERATIONS

Gaming Patron Characteristics

1. Population (ages 21+) of market area:
2. Percentage of market area population (ages 21+) expected to participate in a gaming activity:
3. Expected total annual number of casino visits:
4. Estimated percentage of annual visits by:
 - a. Local Area Patrons (typically within 60 minute drive)
 - b. Overnight Tourists
 - c. Traffic Intercept
5. Expected adjusted gross receipts per visit:
6. Expected average annual frequency of visits from local area patrons (within 60 miles):
7. Average travel distance of a typical market area patron:
8. Estimated percentage of non-Missouri patrons:

Revenues and Competition in Local Area

1. List of competing casinos in market area:
2. Estimated annual loss of revenue to competing casinos in market area (list by casino):

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